OUR FISCAL POLICY.

4 OCT 1953

BY

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PREFACE.

The first part of this work is a reprint with a few changes of my brochure entitled "Our Fiscal Policy", which was published in January 1922, and copies of which were submitted to the Indian Fiscal Commission at the request of the Secretary. A greater portion of this brochure formed a small part of the research work in Indian Finance done by me under the guidance of Professor Cannan at the London School of Economics during 1919-21, as Bombay University Research Scholar in Economics. It was first published in the form of articles in the Journal of the Indian Economic Society in September and December 1921.

In the second part, which deals with "Some aspects in Dominion and British Fiscal Policy", I have made a free use of the standard authorities on the subject. I am particularly indebted to Keith:—Responsible Government in the Dominions; Imperial Unity and the Dominions; War Government in the Dominions; Porritt:—Fiscal and Diplomatic freedom of the British Oversea Dominions; Jebb :—The Imperial conference, and periodical reports of the Tariff Commission, in addition to Parliamentary Papers on the subject.

The Report of the Indian Fiscal Commission was reviewed by me in the Journal of the Indian Economic Society for September 1922. That review has been revised and considerably enlarged and forms the third part of this book.

DEPARTMENT OF ECONOMICS,
UNIVERSITY OF BOMBAY,
January 1923.

C. N. VAKIL.

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INTRODUCTION.

This work is divided into three parts—historical, comparative and constructive. Each part is complete in itself and all three together are intended to provide material for an introduction to the study of our fiscal problems.

The history of Indian Fiscal Policy given in the Report of the Indian Fiscal Commission does not give more information than what was contained in my brochure, "Our Fiscal Policy". In several respects the history reprinted from that brochure in the first part of this work is more exhaustive; it gives the exact references to original sources of information, and contains important extracts from the original correspondence on the subject. For the sake of convenience, especially in presenting statistics, the history has been divided into several periods as under:—First period—1861 to 1874; Second period—1875 to 1898; Third period—1899 to 1913; and Fourth period—1914 to 1920.

The second part deals with some aspects in Dominion and British fiscal policy. We talk of a Dominion status for India. Political and fiscal freedom in the Dominions have advanced side by side. A study of the main features of Dominion fiscal policy and especially of the struggles which the Dominions had in achieving fiscal independence is, therefore, of great interest to us at this juncture in our history. Important changes in fiscal ideas and practice in the dominant partner of the Empire are bound to have some effect on the other parts of the Empire, and it is therefore necessary for us to have some idea of the chief landmarks in British fiscal policy. With this general view in mind, without attempting an exhaustive study of British and Dominion Fiscal Policy, I have given in this part

those of its leading features which in my opinion are of value to us in the future determination of Our Fiscal Policy.

I tender no apologies for giving long extracts from the original correspondence between the Dominions and the British Government regarding Dominion Fiscal Policy. In the first place, they are an interesting contrast to the similar extracts relating to Indian Fiscal Policy given in the first part. Secondly, they are a good guide to the nature of the struggle which we may anticipate before India obtains complete independence in fiscal matters. Thirdly, they show the close connection between political and fiscal freedom.

The third part contains a critical review of the Report of the Indian Fiscal Commission and chiefly of its constructive proposals. Adequate consideration has been given to both the majority and the minority recommendations.

Whether the interests of India alone have been the determining factor in framing Our Fiscal Policy—this should be the test of the future fiscal arrangements of our country. Such an attitude need not be inconsistent with the duties of India towards the Empire as a whole. Those who have followed the discussions at the Imperial Conferences and elsewhere, will realise that no member of the Empire, including England, has been in the past or is now, willing to subordinate her national interests, for the sake of what is known as Imperial unity. Every member is ready to do her part for such a unity, without doing injury to her national interests. The reasons for India to adopt such a policy are stronger than in the case of the other and smaller members of the Empire.

PART I.

HISTORY OF INDIAN FISCAL POLICY.

SECTION I

TARIFF HISTORY UP TO 1874.

In order to have a connected idea of the Tariff policy of the Government of India, it seems best to review among other things the actual correspondence between the Secretary of State and the Government of India on this subject.

Up to the year 1846, there were considerable variations in the Customs laws of the different provinces. The principles on which the Customs duties of India ought to be regulated were laid down by the Court of Directors in their despatch of 22-4-1846, in consequence of the Report of the Committee of the House of Commons on Cotton cultivation. They were[1] —(1) the abolition of duties on the exportation of the staple commodities of India, with the exception of indigo, for which exception special reasons were assigned, (2) the abolition of the duties on the trade between the several presidencies of India, commonly called the "port to port" trade, and (3) the abolition of the double duties on merchandise exported or imported in foreign vessels. The last two measures were carried out soon afterwards.

The situation was reviewed just before the Mutiny and in their despatch of 23-2-1857, the Government of India requested the Secretary of State to consider certain questions in connection with the tariff. But for a time the Mutiny suspended all further discussion on the subject, till

1. P. P (Parliamentary Paper). 81—Sess 2 of 1859.

two years afterwards, when Lord Stanley addressed the Government of India on 7-4-1859 with reference to the financial difficulties caused by this event. The most pressing question at this time was how to restore equilibrium in the finances. The two alternatives were a reduction of expenditure or increase of revenue. The question of reducing the expenditure was considered by Lord Stanley to be "problematical", he believed in the efficacy of "measures for the augmentation of revenue, either by the improvement of the existing sources, or by the development of new means of taxation,[1]" and he devoted this despatch to the consideration of the Customs duties and of the points raised by the Government of India two years before.[2] These points were (1) the equalisation of the duties on British and foreign manufactures and the assimilation of the duties on manufactured and unmanufactured goods, (2) the exemption from duty of all articles producing an inconsiderable amount of revenue, (3) the abolition of export duties and (4) the augmentation of import duties.

With regard to the first point, it was observed that the equalisation of the duties on British and foreign manufactures should be carried out by raising the duties on British goods to foreign rates, and that a distinction should be observed between articles imported in a state fitted for immediate use, and those imported in a wholly or partially unmanufactured condition. The second proposition to exempt from duties those articles on which the amount of revenue was very small, was negatived [on the ground that little inconvenience was felt in the collection of the duty, which was levied on the invoices, and not as in England, on an inspection of the goods themselves. The suggestion for the abolition of export duties also did not

1. Ibid.
2. Despatch, 23-2-1857.

meet with much favour Though these duties were not defended in theory, they were supposed to be already so low, and India was believed to have such a great advantage over other countries in the production of the articles on which they were levied that they would not offer any appreciable impediment to exportation Not only this, but in view of the actual condition of the finances an increase in these duties on some articles, which were pointed out, was recommended As we shall see later, Mr Wilson following this advice levied an export duty on Saltpetre in 1860 With regard to the last question of raising the import duties, the following general principle was laid down—to levy on all articles, "wholly or partially unmanufactured, a duty of 7½ per cent, on all manufactured articles, whatever their origin," which were habitually consumed by the general mass of the community, a duty of 10 per cent., and on such articles as were used only as luxuries by the richer classes, whether European or Indian, a rate of duty amounting or equivalent to 20 per cent. ad valorem.

Before these instructions reached India, Act VII of 1859 had become law In their despatch of 25-5-1859, the Government of India pointed out that[1] the measures introduced by this Act very nearly corresponded with the views expressed by the Secretary of State, except in a few cases; for example, a lower rate of duty (5 per cent.) was placed on cotton twist and yarn; the same duty (10 per cent.) was levied on wrought and unwrought metals, and a higher duty was levied on beer, tobacco and spices. In the case of export duties there was a greater diversity, because with the exception of the duty on grain, no increase in the existing scale of export duties was made, and on the contrary raw silk and tobacco were included in the free list.

1 Ibid p. 16.

The new Act was the cause of many complaints on the part of interested persons in India. A memorial submitted to the Secretary of State by a body of English merchants of Bombay was typical of these complaints Among the many evils of the new measure the greatest according to them, was the increase in the duties on cotton goods, and with reference to this the memorial expressed the hope[1] "that the commercial policy of Her Majesty's Government in India will not be inaugurated by a departure from those principles of free trade which are now recognised in England as the basis of commercial prosperity."

Mr. Wilson found the Customs Administration in this state when he arrived in India, and some of the points to which his attention was particularly directed, were to meet the objections and irritation excited by the Act of 1859. As a result alterations were made in the Customs Act in 1860, by which the duty upon cotton manufactures of all kinds was brought to one common rate of 10 per cent. Mr Wilson, moreover found that the objections of the mercantile community referred rather to a new tariff of valuations the operation of which very materially modified the bare letter of the law. This led to the appointment of a committee to fix a uniform tariff of valuations for all India, on whose report certain changes were made which in effect reduced the duties to some extent[2]

In his search for fresh resources, Mr. Wilson following the suggestion of Lord Stanley in 1859 to increase the export duties, imposed an export duty of Rs. 2/-per maund on Saltpetre. This article was produced in other countries, and in Belgium, the means of making it artificially were discovered. The very high duty on Indian saltpetre stimulated this artificial production and ultimately the Indian trade in this article was strangled. It was too late when this duty was reduced in 1865 and 1866 and finally

1. Ibid p 12 2. P P 573 of 1860

abolished in 1867. Indigo on which the former export duty of Rs. 3/-a maund was still maintained suffered ultimately a similar fate.

From 1860 to 1866 several minor modifications were introduced in the tariff. But of these modifications, those in Cotton Duties deserve notice.

We have seen that the Act of 1859 had created great opposition, chiefly on account of the Cotton Duties. Mr. Wilson tried to meet this by revising the valuations and by equalising the duties on cotton manufactures of all kinds, that is, he reduced the duty on piece goods from 20 to 10 per cent. and raised the duty on Cotton yarn from 5 to 10 per cent. This was not satisfactory to the English merchants, they, however, found the next Finance Member more congenial to their wishes.

In 1861 Mr. Samuel Laing reduced the duty on cotton twist and yarn to 5 per cent. This is the beginning of the policy of the Government of India[1] by which they identified themselves with the interests of English Cotton Industry as against Indian This controversy about Cotton Duties, which became so famous in future years, was already begun by interested English merchants in their opposition to the Act of 1859 It turns on the question whether Indian industries should be protected. Apart from English Economic Theories, which presuppose English conditions, and which, therefore, cannot be applied to Indian conditions without modifications, it is perfectly true to say that enlightened public opinion in India strongly believes in the protection of Indian industries. But the belief has been so far of no avail, in impressing the Rulers, who profess to act on the other belief that because Free Trade is good for England, it is good for India. The truth

1 "The Government of India" in this connection denotes all those who were responsible for the management of Indian affairs, that is, the Secretary of State and the Parliament also.

is that Free Trade has been imposed upon India because it is convenient to England—because it assures a free and large market for the manufactures of England.

In his budget speech for 1861, after haranguing the Council on the protective character of the duty on Cotton twist and yarn, and on the principles of Free Trade, Mr. Laing expressed his desire to reduce the duties on cotton goods and other manufactures, which he could not then carry out because the amount of revenue affected was very large. "But that is no reason", he said, "why I should not at once deal with yarn where the amount is small, the failure of the high duty palpable and the case urgent, because parties are actually building mills and importing machinery on the strength of the high duty."

His sympathy for the development of Indian manufactures was so great that he wanted to absolve them "from the fatal boon of a temporary and precarious protection". The finances of the next year (1862) gave him, as he believed, an opportunity to fulfil his benevolent intentions, and the import duties on piece goods and yarns were restored to their old rates of 5 and 3½ per cent. respectively. It was during these years, however, that the Salt Duty was increased.

In 1867, in accordance with the recommendations of the Tariff Committee[1] of that year, important changes were introduced. Firstly, revised valuations of goods, specially of cotton piece goods and twist, (which were reduced), came into force Secondly, a new classification of the articles subject to duty and the use of English measures and weights were introduced But the third and most important reform was the removal to the Free List of petty articles which neither gave, nor were likely to give, any appreciable amount of revenue This was brought about in the following way

1 P P. 148 of 1867

The principle upon which all former Customs Duties had been framed was to declare a few staple articles of trade free, and then to enact that all other articles shall be dutiable at a general rate, with special rates for a few specified articles This of course rendered every conceivable petty article (not specially exempt) liable to examination and duty, and was the reverse of the principle adopted in England where articles liable to duty were specified and all others were left free As a right step in this direction all articles which were not specially enumerated as subject to duty were left free. This measure, while it did not sacrifice any large amount of revenue, added greatly to public convenience, removed restrictions, and gave encouragement to several branches of trade As a result, 39 articles were exempted from Import duties, and 88 from Export duties, or 97 articles, which were specified paid Import duties and only 9 paid Export duties [1]

Among the changes in the rates of duty introduced in 1867, may be noted an increase of 8 annas on the richer class of wines, and a decrease of 8 annas on the poorer class, an increase of 1 anna on the export of grain to make up for the loss due to the new system, and the removal of the duty on Saltpetre

In 1868, the importation of timber and wood was freed, and in 1869 the tariff valuations of Cotton goods and of the principal metals were again reduced by about 15 per cent. Some minor changes were made in 1870 and 1871, in 1873 the export duty on wheat and in 1874 the export duty on lac dye were removed.

Of greater importance towards the end of the first period (1861-1874) was the real beginning of that movement by which under cover of Free Trade principles, the interests

1. These figures relate to those articles removed from Tariff List or from the ad valorem list Besides these all other unenumerated articles were left free.

of Manchester were pushed forward at the expense of the Indian Cotton Industry. Before we trace the details of that movement, we shall consider the revenue results from Customs duty in the first period.

Table 1 shows that the average net revenue from Customs during this period was 2 2 m. £. a year, or only 6 per cent of the total net revenue. After the Mutiny and during the whole of this period, the Government were in want of fresh sources of revenue. Customs Duties contribute a very large percentage to the income of all modern states In almost all countries, except England, it serves the twofold purpose of adding to the revenue and protecting native industry That the industries of India were in the most backward condition, that they were not able to stand in face of highly organised foreign competition, is not open to question. That if the Government of India were truly national in spirit, events would have taken a different course has been acknowledged on all hands. When the land tax was kept at a high level, when Salt contributed

Table I Customs Revenue in Million. £.

Year	Gross Revenue	Net Revenue.
1856	2 1	.
1861	2 8	2 5
1862	2 4	2 2
1863	2 3	2 1
1864	2 2	1 9
1865	2 2	1 9
1866	2 0	1 7
1867	2 5	2 3
1868	2 6	2 4
1869	2 4	2 1
1870	2 6	2 3
1871	2 5	2 3
1872	2·6	2 4
1873	2·6	2 3
1874	2 6	2·4
Average	2·4	2·2

14 per cent. to the revenue, when the administration of justice had to be made dear, and when the Income tax proved a bitter failure, the expediency of adding to the resources of the State by an increase in the Import duties could not be seriously considered, because the Free-Trade-conscience of Manchester began to quiver Without going so high as France or the United States or many other countries, India could, by a moderate increase in Import Duties, have doubled her Customs revenue—this was the opinion expressed by Mr. Samuel Laing himself in 1872.[1] But, as we shall see in the sequel, the triumph of Manchester was more complete in the second period (1875–1898). On account of the difficulties caused by falling exchange additional taxes were imposed from time to time in the second period but we shall find that the General Customs Duties were abolished in 1882, and reimposed in 1894 when all other possible sources of revenue had been exhausted.

SECTION 2.

THE COTTON DUTIES CONTROVERSY. PART I

We have seen that the Tariff was revised in 1869, when the valuations of cotton yarn and piece goods and other articles were largely reduced In 1874 the Manchester Chamber of Commerce addressed a memorial[2] to the Secretary

1 Select Committee of the House of Commons, 1872, Q. 7476.

2. Of P P 56 of 1876, p 38. They complained (*a*) that the duties of 3½ per cent on yarns and 5 per cent. on British cotton manufactures imported into India were assessed on tariff rates fixed many years ago, when values ruled much higher than at present, (*b*) that the tax was found to be absolutely prohibitory to the trade in yarn and cloth of the coarse and low-priced sorts, (*c*) that the Chamber was informed that it was proposed to import Egyptian and American raw Cotton into India (no duty being charged thereon) to manufacture the finer yarns and cloth, which would

of State pointing out the injurious effects of the duties on cotton goods and yarn and their protective character, and praying for their early removal. Later in the year, the Government of India appointed a Tariff Committee The Committee was informed that " the Government of India does not impose or maintain Customs duties for the purpose of affording protection to any branch or class of industry, but for revenue purposes only ", and their opinion was especially invited upon the representations of Manchester [1]

Among other recommendations, the Committee referring to the Cotton duties pointed out that (1) India had certain natural advantages for producing goods of low quality which would secure the trade in them to her even if the duty was removed; (2) that the duty paid by the particular goods which had to meet Indian competition was very little compared to the whole Cotton Import duty, and (3) that therefore the demand for abolition of the entire duty was

thus compete with goods received from England on which duty was levied, (*d*) that a protected trade in cotton manufacture was thus springing up in British India to the disadvantage both of India and Great Britain, and (*e*) that the duties increased the cost to the native population, or at least to the poorest of the people, of their articles of clothing and thereby interfered with their health, comfort, and general well-being

Soon after this, they reminded the Secretary of State that their main object and prayer was the total and immediate repeal of the duties themselves and added—"The statements as to the baneful operation of these duties on commerce, and on the best interest of Her Majesty's subjects, both in India and in England, are abundantly confirmed by the latest advices from Bombay, which show that, under the protection extended by the levying of duties on imports to the spinning and weaving of cotton yarn and goods in India, a large number of new mills are now being projected, and the revenue from import duties will be consequently diminished The impost is therefore defeating its own object, as well as inflicting an injustice on the consumer and importer "

1. Ibid p 39

not justified.[1] The Committee proved that there was no competition between the Indian and English cotton industries; the former produced coarse fabrics, whereas the latter produced finer fabrics; and that the English trade did not suffer. They rejected the alternative proposals of removing the duty on coarse goods only, and of an Excise duty on the products of Indian mills.

The action which the Government of India took on the recommendations of the Committee may be briefly stated —(1) the tariff valuations on cotton goods were reduced involving a loss of Rs. 8,80,000 to the revenue, (2) the export duties on grain other than rice, seeds, oil, spices, tanned hides, and cotton goods were removed, leaving only three articles on which export duty was levied —Indigo, Rice and Lac, (3) the general rate of import duty was reduced from 7½ to 5 per cent. except on articles which

1 Ibid pp 48–64 Cf The following passage from the Committee's report —" The Committee think it more to the purpose to consider what proportion the particular goods which have to meet Indian competition bear to the whole cotton import duty, and how far this competition justifies the demand for abolition of the entire duty which has been brought forward The Indian mills can make mule twist up to 32's, and water twist up to 20's, as also longcloths, T cloths, drills, domestics, jeans, and sheeting The prospect of the finer kinds of yarn and cloths being made, with profits or success, is notoriously so remote, and the enterprise so doubtful, that it is quite unnecessary to take it into present calculation The duty levied in Bombay in 1873-74, upon the similar Manchester goods which have to stand Indian competition was about 2 lakhs of rupees If the total duty on such goods paid in all India be taken, though the mills beyond the Bombay Presidency, are, as yet, comparatively unimportant, it would barely exceed 4 lakhs The demand that, because one class of goods, represented by 4 lakhs of duty in all India, has in one part of India, to meet a local competition, the Government shall remit 77 lakhs which competition cannot affect, appears to the committee quite unreasonable, and it is unnecessary even to enquire whether the finances could afford the remission "

were subject to a special duty,[1] (4) with regard to the cotton duties, the findings of the Committee were emphasized, but with a view "to prevent what little evil might be thought to exist from assuming through their neglect undue proportions" a 5 per cent. duty was imposed upon raw cotton not the product of Continental Asia or Ceylon. The duty would thus fall on American or Egyptian raw cotton, which the Bombay mills might be tempted to import, in order to manufacture finer fabrics in competition with Manchester

The instructions[2] of Lord Salisbury which dictated a contrary policy were received a few days too late to be considered with reference to these measures. He was naturally indignant when he was informed of these proceedings, and he hastened to express his disapproval first

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1 Ibid P 46 The articles subject to special duty were —

Arms, ammunition and military stores	10 per cent
Cotton twist	3½ ,, ,,
Liquors	Various rates
Iron, enumerated sorts and railway materials	1 per cent
Opium ..	24 Rs per seer
Salt and Salted fish	Various rates

2 Ibid pp 3–4. Despatch, Separate Revenue, No 6 of 15 July 1875 "If it were true that this duty is the means of excluding English competition, and thereby raising the price of a necessary of life to the vast mass of Indian consumers, it is unnecessary for me to remark that it would be open to economical objections of the gravest kind I do not attribute to it any such effect, but I cannot be insensible to the political evils which arise from the prevalent belief upon this matter The gradual transfer of the Indian trade from the English to the Indian manufacturer which appears likely to take place, will be attended with much bitterness of feeling on the one side, and with keen anxiety for the security of an unexpected success upon the other The English manufacturer will press with increasing earnestness for the abandonment of the duty to which he will impute his losses, and in proportion to his urgency the Indian manufacturer will learn to value it.

by telegram and then in his despatch of 11th November 1875.[1] The policy enjoined upon the Government of India may better be given in the words of its author:—" In my despatches noted in the margin, Your Excellency has already been informed that the import duty on cotton manufactures should, in the opinion of Her Majesty's Government, be removed whenever the conditions of your revenues shall enable you to part with it. On general principle it is liable to objection, as impeding the importation of an article of first necessity, and as tending to operate as a protective duty in favour of a native manufacture. It is thus inconsistent with the policy which Parliament, after very mature deliberation, has sanctioned, and which, on that account, it is not open to Her Majesty's Government to allow to be set aside, without special cause, in any part of the empire under their direct control. Financial exigency may be a just ground for maintaining a duty which cannot be reconciled with the general policy of this country, but the large remissions you have made in other import duties, affecting articles of a less primary importance, have impaired the validity of this plea.

" In the presence of other causes operating more powerfully upon the cotton trade, the effect of the duty at the present moment in artificially raising the price of cotton goods cannot be accurately estimated. But it has other

It is impossible to believe that under these conditions the duty can be permanently maintained The entire acceptance of the system of free trade by England is incompatible with the continuance of an exception apparently so marked Parliament, when its attention is drawn to the matter, will not allow the only remnant of protection within the direct jurisdiction of the English Government to be a protective duty which, so far as it operates at all, is hostile to English manufacturers"

1. Sir E Perry and Sir H. Montgomery, members of the India Council recorded minutes of dissent against the telegram and the despatch. Cf Ibid, pp 69-71.

effects, of which the evil is palpable, and tends to increase It offers a false encouragement to the Indian manufacturer, which tends to divert him from the efforts by which his success can alone permanently be secured, and it places two manufacturing communities, upon whose well-being the prosperity of the empire largely depends, in a position not only of competition, but of political hostility to each other. The Indian manufacture is growing in strength by the help of resources which fiscal legislation cannot affect. The abolition or reduction of the duty will not injure it though passing apprehensions may be excited by such a measure The impost is too much at variance with the declared policy of this country to be permanently upheld, but if the task of dealing with it be long postponed it will be the subject of controversy between interests far more powerful and embittered than those that are contending over it at the persent time. 'On these grounds I am of opinion that the recent opportunity when you had resources available for the reduction of import duties, should have been taken for reducing this duty with a view to its ultimate abolition".

The Secretary of State attached such an importance to this subject that he sent his Under-Secretary, Sir Louis Mallet to India, to confer with the Government of India not in regard to their fiscal legislation as such, but with a view to ascertain how far it was practicable to agree with them upon a mode of giving effect to his wishes.[1] It is of interest to note that the duty on American and Egyptian raw cotton was not approved by the Secretary of State.

In replying to these injunctions, the Government of India justified their action and urged that the financial position was not such as would enable them to reduce the cotton duties. They further complained that interference from England in their fiscal legislation was without a

1. Cf. P. P C. 1515 of 1876 pp. 13-14. Sir Louis Mallet could not do anything, for he fell ill in Calcutta, and returned soon after.

precedent and that while the desirability of removing this duty was pressed upon them for political reasons, they did not consider such an action consistent with the interests of India.[1]

But the Secretary of State remained unconvinced. In his despatch of 31-5-1876, after discussing the whole subject over again, he came to this conclusion. "Whether, then, the question be regarded as it affects the consumer, the producer, or the revenue, I am of opinion that the interests of India imperatively require the timely removal of a tax which is at once wrong in principle, injurious in its practical effects, and self-destructive in its operation." It was laid down that the abolition of these duties should have priority over every other form of fiscal relief to the Indian taxpayer.[2]

The carrying out of this policy fell into the hands of a new Viceroy (Lord Lytton), and a new Finance Member, Sir John Strachey, who was perhaps more bent upon it than those who directed the affair from England. Upto now it was an issue between the Government in India and the Government in England The latter had prevailed,

1 P P C 1515 of 1876, pp 11 –12, despatch, 25-2-76, Of paras 48, 53 & 54.

2. Ibid p 36 Three members of the India Council voted against this despatch—Sir F Halliday, Sir B H Ellis, and Sir E Perry, the first two wrote dissenting minutes. As a consequence of these proceedings, it may be pointed out that an important change in constitutional practice was introduced Henceforward, legislative measures of all kinds, especially those relating to Finance, were to be first approved by the Secretary of State before being submitted for the formal sanction of the Legislative Council in India. Minutes of dissent against this were recorded by two members of the India Council'–Sir E Perry & Sir H Montgomery Cf. India Office despatch, (Legislative 9) of 31-3-74, I. O despatch (Legislative 51) of 11-11-75; Government of India, despatch (9 of 1876) of 17-3-76; I. O despatch (Legislative 25) of 31-5-76; and P. P. 244 (H. of L) of 1876.

and the former were now ready to move even faster than required. In his Financial Statement for 1877, Sir John Strachey regretted that financial difficulties caused by the famine where so serious that he could not sacrifice any source of income. He regretted this bacause he was not able "to carry out the orders of H. M's Government to which this Government owes a loyal and unhesitating obedience," and because he himself was no recent convert to the policy which had been laid down. But though he could not act at this time, he definitely sounded the death-knell not only of the duties on cotton, but also of Import duties in general.[1] This second result was a corollary

1 Of F S (Financial Statement) 1877, Sir John Strachey said —"I am not ashamed to say that, while I hope that I feel as strongly as any man the duties which I owe to India, there is no higher duty in my estimation than that which I owe to my own country I believe that our countrymen at home have a real and very serious grievance and that it is no imaginary injury against which they complain I know that Your Excellency has resolved that the Government of India shall not shirk this business, and there need be no fear that it will be regarded in any half-hearted spirit Your Excellency took the earliest opportunity which could be found, after you had assumed the Office of Viceroy, to declare publicly your views upon this subject, and if I say no more regarding it now, it is mainly because I feel sure that your Exellency will not lose the present opportunity of publicly declaring those views again. For myself personally, if I had not confidently expected to take part in this great reform, I doubt whether anything would have induced me to accept my present office, and I trust that I may still have a share in the performance of a task which I look upon as one of the most important which this Government has before it

". . The truth is that cotton goods are the sole article of foreign production which the people of India largely consume, and there is no possibility of deriving a large Customs revenue from anything else I do not know how long a period may elapse before such a consummation is reached, but, whether we see it or not, the time is not hopelessly distant when the ports of India will be thrown open freely to the commerce of the world"

from the first. The duties on cotton formed the most important portion of the Tariff and if they were removed, it would not be possible to collect an insignificant amount of revenue from many articles at great expense. From the policy thus laid down half the members of the Viceroy's Executive Council recorded a strong minute of dissent.[1]

In July 1877, the House of Commons passed a Resolution without a division to the following effect.—"That in the opinion of this House, the duties now levied upon cotton manufactures imported into India, being protective in their nature, are contrary to sound commercial policy; and ought to be repealed without delay, so soon as the financial condition of India will permit."

In forwarding this Resolution to the Government of India, Lord Salisbury insisted that if it was not possible for them to give effect to it in the coming year, they should at any rate proceed at once with "the repeal of the duty of 5 per cent. on foreign raw cotton imported into India, and the exemption from import duty of the lower qualities of cotton manufactures, upon which the present

1 P P 241 of 1879, pp 4-5. The minute was signed by Sir Arthur Hobhouse, Sir E C Bayley, and Sir Henry Norman. Among other reasons for dissenting from this policy, they gave the following two.—(1) Because we think that, whenever the possession of a surplus enables it to reduce duties at all, the Government should carefully consider whether it is not desirable to operate upon other duties, e. g. the salt duties, the sugar duties, or the export duties, in priority to the import duties, in our judgment, each of these three items of revenue requires alteration far more urgently than do the duties on cotton goods. (2) Because independently of pure financial questions, we think it impolitic to disregard the fact that the repeal of duties on cotton goods in India, in preference to other injurious taxes, is viewed with great suspicion and dislike by a large portion of the educated natives of this country, and is likely to cause much irritation among them

tax is incontestably protective, not only in principle but in fact, and the value of which for revenue purposes is wholly insignificant".[1]

Effect was given to these instructions in March 1878, in the Financial Statement for 1878. Though it was found that the finances were not in such a condition as to give up any source of existing income, a notification was issued by which certain kinds of coarse goods with which Indian manufactures were supposed to compete successfully were exempted from duty. These were (1) unbleached T cloths under 18 reed, jeans, domestics, sheetings and drills not containing finer yarn than what is known as 30s. (2) Yarn of the qualities known as 20s. water and 32s. mule and lower numbers. The duty on raw cotton was also removed.

But the appetite of the Manchester Chamber of Commerce was not satisfied. They pointed out[2] that there were other kinds of goods made from 30s. and coarse yarns which were not exempted, and they further asked that yarns of higher quality up to 25s. water and 42s. mule should be exempted. This demand was followed by the appointment of a committee to reconsider the whole situation. In accordance with the views of this Committee[3] all cotton goods containing no yarn finer than 30s. were exempted from duty in March 1879. It was believed that this measure would remove the directly protective character of those duties. The indirect protection which, it was supposed, enabled the Indian-made coarse goods to displace, by their cheapness or other qualities, imported finer goods, still remained. It was, however, not possible to deal with this question except by

1. Ibid, pp. 6-7 Despatch 30-8-77.

2. P. P 241 of 1879, pp. 14 15. Resolution of the Manchester Chamber of Commerce and letter to the Secretary of State, 27-8-78.

3. Ibid pp. 15-29. The second demand relating to yarn was found unreasonable.

the abolition of duties on all cotton goods and financial considerations did not permit of such an action.

This measure involved a loss £200,000. This loss was accepted notwithstanding the fact that there was a deficit, that the Afghan war was going on, that the exchange was falling, and that the recent arrangements for the protection of the country against famine had to be suspended.[1]

The one essential condition in the pledges given in connection with the removal of these duties was that it should be carried out only when the finances were in a prosperous condition It was mainly on this and other grounds that this action was opposed by the majority of the Viceroy's Council.[2] Act 33, Victoria, chapter 3, sec. 5,

1. Cf. F S 1880 para 74. Also Cf. Fawcett "Indian finance" pp 4, 12, 75-77, 88 The following extracts from Fawcett pp 75 and 85 will be of interest. "No one for a moment will even pretend to say that, in the present state of Indian finance, the idea would have been entertained of remitting these duties if the finances of India were administered in the interest of that country alone"—"It may be urged that India, in the present state of her finances, cannot possibly do without the additional revenue which is obtained from the taxes imposed for the creation of a famine fund. But if this be so, then it is far better at once to recognise the fact that these new taxes have not been applied to the creation of a famine fund, but that they are required for the general purposes of the Indian Government, and amongst these purposes it is particularly to be noted that the one which is considered of most pressing urgency is to reduce the import duties on cotton goods"

2. They were—The Hon. W Stokes, the Hon A R Thompson; Sir A J Arbuthnot, and Sir Andrew Clarke. They recorded very important minutes of dissent, from which the following extracts may be read with interest (Cf. P P 69 of 1879, H. of L.) The Hon. W. Stokes said—"I dissent from the proposal to exempt from import duty cotton goods containing no yarn of a higher number than thirties —Firstly, because the financial condition of this country is so deplorably bad that we cannot afford to lose even twenty lakhs a year, which sum is said to be about the annual cost of the proposed

gave the Viceroy discretionary power to overrule the Council when the interests, the safety or the tranquillity of British India were essentially concerned. It was after exercising this extraordinary prerogative and setting aside the

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exemption We have spent our Famine Insurance Fund, or what was intended to be such We are carrying on a costly war with Afghanistan We may any day have to begin one with the king of Burma. Our estimates show a deficit We have now to borrow five crores in India and we are begging for two millions sterling from England Our income is almost stationary Our opium revenue is precarious And our difficulties arising from the depreciation of silver seem, for some years at all events likely to increase rather than diminish We have exhausted all gainful sources of indirect taxation and for every tax we surrender we must, therfore, impose a direct tax Knowing as I do, the horror (in my opinion the reasonable horror) of new direct taxation, which is felt by the natives of India, I cannot think it wise to do anything which must lead to its imposition It is painfully clear that the time has not arrived for even a partial fulfilment of the undertaking that the import duty on cotton goods should be repealed as soon as the financial condition of India permitted Fifthly, because the free admission of cotton goods would probably destroy a promising and useful local industry and in the absence of competition, the Manchester manufacturers would practically compel the people of India to buy cotton cloths adulterated, if possible, more shamefully than such goods are at present The cost of the clothing of the people would thus be increased rather than lessened, and the arguments founded on the injurious effect of an imaginary protection would lose the little force that they ever possessed

Sixthly, because nothing will ever induce the people of India to believe that the proposed exemption, if made, has been made, as no doubt we shall say it has, solely in their interest They will be convinced by their newspapers, (which are read aloud in every bazar) that it has been made solely in the interest of Manchester and for the benefit of the Conservative party, who are, it is alleged, anxious to obtain the Lancashire Vote at the coming elections. Of course the people of India will be wrong. they always must be wrong when they impute selfish motives to the ruling race.

opinion of the majority of his council that Lord Lytton introduced this measure. It is difficult to understand how

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Nevertheless, the evil political result likely to follow from this popular conviction should not be ignored, and should, if possible, be avoided.

Lastly, I object to the way in which the proposed change in the law is to be effected The Viceroy, as I understand, intends to over-rule the majority of his Council and to make the proposed exemption by Executive order, in the Revenue Department, under section 23 of the Sea Customs Act Such an order is, no doubt, authorised by the terms of that section But the Indian Legislature. in conferring on the Executive power to make such exemptions, never intended that it should be exercised so as to make suddenly a vast change in our law, affecting not only the importers and consumers of the particular class of goods dealt with, but the taxpayers of India in general, a change that will not only seriously diminish our present revenue, but force the hand of the Legislative Council by compelling them to impose new direct taxation The power to exempt goods from Customs duties was originally conferred by Act XVIII of 1870, and was merely intended to relieve the Executive from the useless and troublesome formality of coming from time to time to the Indian Legislature to make in the tariff petty alterations which that Legislature, if applied to, would have made at once. The change now proposed is of a very different character I have reason to think that it would never be sanctioned by the Legislative Council, unless, indeed, arguments were brought forward in its favour far more cogent than those that I have heard. The proposed exemption of cotton goods, if made by mere executive order will thus resemble what lawyers call a fraud on the power, and there is, unfortunately, no court of equity to relieve the people of India against it "

Referring to the remarks of the Finance Member, Sir John Strachey, Sir A J. Arbuthnot wrote in his minute as follows — "The argument that because our difficulties are so great it will therefore do no harm to add to them to the extent of £200,000 is the sort of argument that I should not have been surprised to hear from the lips of an embarrassed spendthrift, but which seems to me utterly out of place in a resolution dealing with the finances of an

this object came to be magnified in the Viceroy's eyes so as to warrant the use of his absolute power.

When these proceedings came for consideration before the Secretary of State in council, a similar event occurred. The Council was equally divided[1] and it was by his casting vote that the Secretary of State recorded his approval of the action taken by the Viceroy. Both the Viceroy and the Secretary of State, however, had the satis-

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empire It betrays, in my opinion, a disregard of the first principles of financial economy, which is equally certain to lead to disaster, whether it be applied to the fortunes of an individual or to the finances of a state, and which cannot be too emphatically condemned" He further wrote—"By a tacit, but well understood, compact, India was excluded from the arena of party politics in the House of Commons Now for the first time there is a prevalent belief that this understanding has been departed from. A measure seriously affecting the finances of India has been, and is being, pressed upon Parliament by a powerful section of the English mercantile community, and the general opinion is, that, that pressure has so far produced an effect, that at a juncture of the gravest financial difficulty and anxiety the Government of India has been impelled to incur a sacrifice of revenue which the most ordinary considerations of financial prudence should have led it to retain with the certainty that the present concession will only encourage further pressure until the whole of the particular branch of the state revenue which has been the subject of attack shall have been abandoned And this has been done at a time when we are engaged in war, when we have very recently emerged from a calamitous famine, when we have in consequence re-imposed direct taxation of a notoriously unpopular, and, in its practical working, often of an oppressive description, which, having been raised for a special purpose, we are forced to divert to other purposes, and when the Government of India has scarcely recovered from the odium which it incurred by its legislation restricting the license of the vernacular press."

1. Those against the measure were —Mr. Dalyell, Sir B. Ellis, Sir F. Halliday, Sir R Montgomery; Sir W. Muir; Sir H. Norman, and Sir E. Perry. *Cf.* P. P. 392 of 1879.

faction that their high-handed action was unanimously approved by a higher authority—the House of Commons, which passed another Resolution in April 1879 to the effect that "the Indian import duty on cotton goods, being unjust alike to the Indian consumer and the English producer, ought to be abolished, and this House accepts the recent reduction in these duties as a step towards their total abolition, to which Her Majesty's Government are pledged."

Fresh anomalies in the working of the cotton duties were soon revealed.[1] One of the chief consequences of the exemption given in 1879 was to give a strong inducement to English manufacturers to supplant finer by coarser classes of goods. In that year the difficulty was caused by the fact that while certain classes of goods were admitted free, other large quantities of goods of almost precisely the same character in everything but name were liable to duty; the difficulty now was not due to competition between Lancashire and Indian mills, but to the competition amongst Lancashire manufacturers themselves, to take the fullest advantage of the boon conferred upon them by the Government of India. The trade in the exempted goods increased, and that in the taxed goods decreased, with a consequent loss to revenue. The estimated loss of £150,000 for 1879 proved to be £200,000 and a loss of £250,000 was expected in 1880. Sir John Strachey was indeed right when he observed that the "Cotton duties are, in my opinion, virtually dead" He admitted that the state of things which was deliberately brought about was "anomalous and objectionable". The complete solution of the question, however, involved the abolition of the remaining duties on cotton goods, which would cost £600,000 in addition to the £250, 000 which had already been given up. The Government were not prepared to incur this loss, but he looked

1 Cf. F. S. 1880, paras 72–81.

forward with confidence to the almost total abolition of customs duties in India, " when the ports of India will be thrown open freely to the commerce of the world."

A step in the right direction was taken this year (1880-81),[1] so far as the export duties were concerned. We have seen that since 1875 the only export duties that existed were those on Indigo, Lac and Rice. In view of the serious danger to the indigo industry from the competition of chemically prepared substitutes, the duty on Indigo was removed. Lac produced a very small amount of duty and it was also exempted. The duty on rice was retained not because India had a monopoly of the trade in Rice, but because she had something approaching to it and because so long as this continued, the duty could be retained without injury to Indian interests

The Financial Statement for 1882 is an important landmark in the history of Indian Finance in many ways. The previous year had closed with a surplus of 1½ m. £. On the existing basis of taxation the year 1882 was calcutated to yield a surplus of more than 3m. £ This gave the Finance Member, Major Baring (afterwards Lord Cromer) an opportunity to introduce several reforms The objectionable Patwari Cess in the North West Provinces was removed. The position of the Subordinate Civil Services was improved. Fresh arrangements were made in connection with Provincial Finance But of greater importance was the equalisation of the duties on Salt[2] at Rs 2 a maund, and the total abolition of the Cotton Duties and the General Import Duties.[3]

The effects produced by the recent changes in the Tariff were found to be objectionable in many ways. There was a distinct tendency of an increase in the imports of the exempted goods and of a decline in those of the dutiable goods. (1) From the point of view of administrative

1. Cf. F S. 1880, paras 82-88.
2. At a cost of l. 4 m. £ 3 At a cost of l. 2 m. £

convenience, it was found very difficult to distinguish between dutiable and duty-free goods. (2) From the point of view of fiscal principle it was found that (*a*) though direct protection to Indian manufacture[1] no longer existed, an artificial stimulus was given to one class of Manchester goods against another. (*b*) Moreover, in certain special cases, goods containing some amount of fine yarn were imported duty free, whereas the Indian mills had to make such goods out of yarn which paid duty. (*c*) Again, it was unjust to tax white and coloured goods, when grey goods were exempted.

With reference to the General Import Duties, it was pointed out that they were also protective, that they yielded only a small revenue, that they taxed some of the raw materials of industry, that there were several practical difficulties in enforcing them, and that they interfered with trade without bringing a fair amount of revenue. The logical conclusion from this was that "the arguments in favour of abolishing the General Import Duties are even stronger than those which may be adduced in respect to the abolition of the Cotton Duties. The maintenance of the former, if the latter are to be abolished would, from every point of view, be open to great objection."

The Government had a surplus It was possible to remit taxation. What form should that remission take was the question. But the question was neither considered nor discussed. The Government had come to the above conclusion in connection with the Import Duties ere long, and they were only seeking an opportunity to carry out their long-cherished wishes. It was accordingly resolved to abolish the Cotton Duties and the General Import Duties.

1 It could have been argued that some protection to the Indian handloom industry existed, but it is well known that by this time this industry had ceased to be of any importance.

The special duties, namely, those on wine, beer, spirits, and liquors, as also those on arms and ammunition, Salt and Opium, remained.

The triumph of Free Trade principles was never more complete. The ports of agricultural India were more open to the industries of the world than the free ports of England herself. The competition of manufactured goods had by this time killed the village industries of India. The village craftsman was forced to become an agricultural labourer. The few industries which were beginning their precarious life were now "free" to compete with the advanced industries of England or the protected industries of the rest of the world.

With her economic organisation thus disturbed, India was denied the only remedy adopted by most modern countries—a protective tariff. This would also have added to the financial resources of the country. The reduced Salt Duty of Rs. 2 a maund still pressed heavily upon the Indian peasant. The anomalies of the License Tax were admitted by the Government themselves. The Land Cesses added to the already heavy impost on the Land.

SECTION 3

THE COTTON DUTIES CONTROVERSY. PART II.

The end thus brought about after hard struggles was to be maintained with equally hard struggles. And when the hand of the Government was at last forced, the same tale of convenient and rigid adherence to theory was repeated with a total disregard for other more important considerations.

It was not long before the finances were again in deficit. The increased military expenditure from 1885, and falling exchange, combined with a reckless haste in the

construction of Public Works made it necessary for the Government to find new sources of revenue. The License Tax was turned into an Income Tax (1886). The Salt Duty was raised to Rs. 2-8 per maund (1888). The Famine Grant was now and again suspended. The Provinces were frequently asked to contribute. But so long as there was the slightest possibility of getting money from any other quarter, Import Duties were to be held back in sacred horror. This position was maintained with admirable tenacity for 12 long years of difficulty and financial anxiety.[1]

As the year 1882 is memorable for the abolition of the Import Duties, the year 1894 is equally memorable for the re-imposition of those duties. Speaking in the Legislative Council on 1st March 1894, the Finance Member showed that he was faced with a deficit of 3½ crores of Rupees, which he attributed directly or indirectly to the fall in exchange[2]. The Herschell Committee[3] on Indian Currency had recently expressed an opinion in favour of Import Duties with certain reservations, and the Government of India found in them the only available additional source of revenue in their present embarrassments. They therefore proposed to levy Import Duties at the rate of 5 per cent. But at the bidding of Her Majesty's Government, Cotton Yarns and Goods were to be excluded from amog the articles liable to duty.

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1 A special import duty of 5 per cent. was levied upon petroleum in 1888, the year in which the Salt Duty was raised to Rs 2-8 But in this case the commodity came not from England but mainly from Russia and America. Moreover, it could be easily argued that the production in India did not compete with foreign production. The Finance Member said—" I have only to say that we want money, and that, whatever may be the case regarding other imports, petroleum is an article in respect of which most of the theoretical objections to an import duty disappear ".

2. *Cf.* P. P 143 of 1894. 3. Report para 39.

This unjust exemption in favour of Manchester raised a storm of protest in the country and in the Legislative Council. The Governor-General in Council were unanimously opposed to it, but were powerless. The Finance Member did not admit the validity of the objection made to the duties on cotton on the ground of protection and he even asserted that if any industry in the world deserved protection, it was the cotton industry of India.[1] It is of interest to note that against this arbitrary decision of the Secretary of State six members of the India Council recorded minutes of dissent.[2]

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1. Cf. P. P 143 of 1894 pp. 50 and 56

2 They were:—Sir A Arbuthnot, A Alison, D M Stewart; H Rawlinson, C. A Turner; and A. C Lyall. Sir A Arbuthnot wrote as follows —"I desire to record my dissent from the decision of the Secretary of State excluding duties upon cotton goods from the Import duties which the Government of India have been authorised to impose in the present very grave financial crisis The decision to which I refer was passed in opposition to a unanimous vote of the Council of India, and to the views of the Governor General in Council It is, in my opinion, open to very serious objection, both upon financial and political grounds It compels the Government of India, not only to suspend the Famine Insurance Fund, but to budget for a considerable deficit, the amount of which, for all we know, in the present condition of the silver question, may possibly assume much larger proportions, and it practically announces to the people of India that, however great may be their needs, no measure for their relief will be sanctioned which may be likely to offend any powerful English interest In 1894, as in 1879, the interests of India are to be sacrificed to what the people of India regard as Parliamentary considerations, and this is done at a time when India is in a condition of political unrest which demands exceptional watchfulness on the part of her rulers, and which certainly ought not to be stimulated by any action of theirs

Such a measure as that which has now been resolved on is certain to produce discontent in India, and to excite an agitation which on every ground it is very desirable to avoid, for, if there is

But the difficulties of the Government of India were not over, and it was found that at no distant date, fresh sources of income may have to be provided. With reference to this the Secretary of State laid down certain instructions in his despatch[1] (No. 65 Revenue) of 31-5-1894. They were to the effect that if the Government should be forced again to consider the question of imposing duties on cotton manufactures, they should ascertain what classes of imported cotton goods came into competition with Indian manufactures of the same kind, and determine by what means any duties that might be imposed, might be deprived of a protective character.

Accordingly, the Finance Member, the Hon. Mr. Westland, made a detailed investigation of the whole question and came to the following conclusions[2]:—"(1) Of the manufactures of India, quite 94 per cent. is absolutely outside the range of any competition with Manchester being the coarser quality of goods (24s. and under) which Manchester cannot pretend to supply so cheaply as India. (2) Manchester has an absolute monopoly of the finer qualities of goods, but the bulk of its trade consists in piece-goods of about 30s., and in yarns somewhat finer.

(3) Of goods of the counts 26 and over, India can produce them under difficulties and in small quantities, and to the extent to which it produces them it is in direct, but obviously somewhat unequal, competition with Manchester,

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one thing certain in connection with the very complicated machine which is called the British Empire, it is 'that there is an essential solidarity between the interests of India and the interests of Great Britain, and that no measure which furnishes ground for discontent on the part of Her Majesty's Indian subjects or which may tend to impair their confidence in the justice of British rule, can be regarded as compatible with the welfare of the Empire."

1 P. P C. 7602 of 1896.

2. Ibid. pp. 11–12.

that is, it is producing goods of a class that Manchester also lays down in India.

The values may be roughly stated as follows:—

	m. Rx.	m. Rx.
Imports from United Kingdom into India—		
Yarns	2·6	
Piece-goods	22	
	——	24·6
Mill manufactures in India—		
Piece-goods—		
Exported	·6	
Consumed in India	3·4	
Yarns, excluding those woven into piece goods—		
Exported	6	
Consumed mostly by handlooms ...	4 6	
	——	14·6

"Six per cent of this amount, or say Rx. 860,000 worth of produce, may be considered as a possible competitor in the field of trade that is occupied by Manchester, that is, not only with Rx. 24,600,000 worth of goods which Manchester sends yearly to India, but also with large quantities which Manchester sends to China, Japan and the East Coast of Africa, to which places India might (though as a matter of fact it does not) send part of its total competitive traffic of Rx. 860,000. The exports of Manchester to the East appear to be nearly 30 millions sterling, say Rx. 45,000,000. So that India gets less than 2 per cent. of the market for the finer goods, of which Manchester gets 98 per cent. The only possible harm that can arise to Manchester, if we were to impose an import duty of 5 per cent. without levying a countervailing duty on Indian manufactures, is that in this narrow margin-the Rx. 860,000 of Indian manufacture—the Indian mills, having no corresponding burden of taxation, might be able to absorb

a larger share of the whole trade. The probability of their actually doing so may be judged from what I have above said of the greater facilities and the greater inducements that Indian mills have for extending the coarser rather than the finer qualities. But even should the effect of this advantage be to treble the existing production, it would take away from Manchester no more than Rx. 1,700,000 worth of trade out of its present total of Rx. 24,600,000 in India".

With these conclusions before him, and with a view to give effect to the instructions of the Secretary of State the Finance Member recommended that import duties be imposed at the rate of (a) 5 per cent. ad valorem on all cotton piece-goods, (b) 3½ per cent. ad valorem on all cotton yarns of counts above 24, and (c) that an excise duty of 3½ per cent. ad valorem be levied on all machine-made cotton yarns, produced at mills in British India of counts above 24[1].

The Government of India requested the Secretary of State to accept these proposals as meeting the conditions prescribed by him and recommended them as the basis of legislation, if it should be necessary to strengthen the financial position during the course of the year. But in the meanwhile, the Secretary of State had given renewed pledges to the House of Commons[2] to the effect that cotton duties in India shall not be sanctioned if they had even the shadow of protection about them. In spite of the conclusive evidence produced by the Finance Member, the Secretary of State, therefore, doubted whether[3] a 3½ per cent. duty on yarns used in Indian fabrics might not to some extent protect Indian manufactures against imported goods of the same description, paying a 5 per cent. duty,

1. Ibid p. 7. Despatch 7-8-1894.
2. See debate on 27 July and 16 August 1894.
3. Ibid, p. 14, despatch 13-12-1894.

and whether counts above 24 was the right line at which duty on yarns should begin. Accordingly, he modified the above proposals by raising the duty on yarns from 3½ to 5 per cent. and by asking that it should begin with counts above 20, instead of 24.

By this time it was found that it was not possible to pull on without the aid of the Cotton Duties, and therefore legislation embodying these injunctions was brought for the sanction of the Council. On the one hand, the Government of India showed their utter helplessness in the matter. On the other, some of the members spoke with indignant protest, which was equally helpless. The Hon. Mr. Pherozeshah Mehta condemning the principle and policy of the cotton duties bill said,—"That principle and that policy are that the infant industries of India should be strangled in their birth if there is the remotest suspicion of their competing with English manufactures."[1]

It had been proved beyond doubt that only 6 per cent. of the Indian mill products were in a position to compete with Manchester. But, "in order to prevent any possibility of the duties being protective", 20 per cent. of the Indian mill products were subjected to taxation. It was pointed out that[2] the measure was an interference with an industry which it was necessary to encourage in order to reduce pauperism, that it would increase the cost of a necessity of the poor throughout India, and that it would discourage the improvement of the quality of the cotton grown in India. The industry deserved consideration at the hands of the Government, if not its fostering care; it got a standing menace in its stead.

But this was yet not a complete exercise of the political power of vested interests in England. The case with

1. Cf. Council Proceedings.
2. See Council Proceedings.

which they carried out their wishes emboldened them to search for still more remote signs of protection to their helpless dependency, and they had simply to point their finger at any to accomplish their desires.

The objects of renewed attack from England may be thus stated—(1) that certain Scoth manufacturers and exporters sent to Burma, a large quantity of cotton yarns of low counts, which had to pay a duty of 5 per cent. and were thus at a disadvantage as compared with similar competing yarns from Bombay and Calcutta, which paid no excise duty if of number 20 and under, and entered Burma free of duty. (2) That the Indian manufacturer paid an excise duty of 5 per cent. on the grey yarn value of his goods, whereas the English manufacturer paid an import duty of 5 per cent. on the value of the finished goods, which was higher. (3) That Indian woven goods, made from yarns just below the excise line could, and would compete with and take the place of imported woven goods liable to a 5 per cent. duty.

Lord George Hamilton, in forwarding these objections to the Government of India concluded with this mandate[1]— "But if the condition of Indian finances compels the Government to retain import duties, then it is necessary that the duties should be placed on such footing as will not infringe pledges that have been given, or afford ground for continued complaint and attack."

On examination, the Manchester Case was pronounced by the Finance Member to be greatly exaggerated, but it was meekly said that there were two matters in which the treatment of Indian and of Manchester goods was not on quite the same level.[2] (1) That though the amount of coarse woven goods imported from England was at the most very small, it was not non-existent, and that there was some reason in the claim that the exemption of coarse

1. P. P. C. 8078 of 1896, p. 7, despatch 5-9-1895.
2. Ibid. p. 27. Cf. Council Proceedings.

This miserable controversy thus came to an end, when Manchester saw to her gratification that she had left no possibility of even a nominal competition on the part of her Indian rival.

In the history of Indian Finance (or of British Rule in India), the way in which under cover of Free-trade principles and equality of treatment, the political power of England was misused to forward the interests of a section of the English community, without due regard for the interests of India, will always remain a great blot.

The effect of the measures discussed above is visible in the revenue from customs during the second period.[1]

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2 Table 11 Customs Revenue in m Rx or tens of rupees

Year.	Gross Revenue	Net Revenue.
1875	2·7	2 5
1876	2 4	2 2
1877	2 6	2·4
1878	2 3	2·1
1879	2 2	2 0
1880	2 5	2 3
1881	2 3	2·1
1882	1 2	1·1
1883	1 1	1·0
1884	1 0	0 8
1885	1 2	1·0
1886	1·2	1.1
1887	1·3	1 2
1888	1·3	1 1
1889	1 5	1 3
1890	1 7	1·6
1891	1·7	1·5
1892	1·6	1·4
1893	1.6	1·5
1894	3 8	3·6
1895	5 0	4 8
1896	4 4	4 2
1897	4·6	4·4
1898	4 8	4 5
Average	2.3	2·2

We observe a fall of more than a million after 1882, when the General Customs duties were abolished. From 1882 to 1888, the Customs revenue was derived only from the special duties on imported liquors, and on arms and ammunition. In 1888 a 5 per cent. duty on petroleum was levied and hence the small increase in revenue after that year. On the reimposition of the General Customs duties in 1894, the revenue increased by more than 2m. Rx. When the Cotton duties were at last imposed another million Rx. was added to the revenue. The revenue which was reduced to 1 m. Rx. in 1882 was 4·5 m. Rx in 1898. Because of the existence of Import duties only for a few years in the second period, the average revenue for the period is small—2·2 m. Rx. almost the same as the average revenue in the first period It is evident that if Customs revenue had not been deprived of its proper place in the fiscal system of India during the second period, the financial difficulties would have been considerably diminished, and there would not have been any necessity of increasing the Salt duty as in 1888.

SECTION 4.

THE THIRD PERIOD (1899 1913)

It is convenient to treat this section in three parts. The first will deal with Countervailing Duties on Sugar; the second with the question of Imperial Preference; and the third with other changes in the tariff during this period.

Countervailing Duties on Sugar.—From 1890 the imports of sugar from Austria and Germany into India began to increase The exportation of beet-sugar from these countries was specially encouraged by a system of bounties. The principal features of the system in force in the chief beet-growing countries included (1) a bounty on exports, (2) an internal tax on the indigenous

industry, to provide the bounties or recoup them, and (3) a prohibitive import duty to exclude foreign competition. In 1897 the United States of America passed an Act imposing countervailing duties on bounty-fed sugar. As a consequence, the Austrian and German sugar was forced to find its market in India, and the imports of beet-sugar from these countries increased enormously from this year.

On account of this unfair competition with the Indian article, which the Free Trade policy of the Government of India allowed, the area under suger-cane was being reduced, and sugar refineries were being closed down. To save the Indian industry from complete ruin the Government of India passed an Act in 1899 by which power was taken to impose an additional duty on sugar imported into India equal to the net amount of bounty or grant given to such sugar by the exporting country.

In the meawhile continental manufacturers began to form combinations—known as cartels. On account of the very high import duty on sugar entering their countries, these manufacturers were able to sell their sugar for local consumption at such high prices, that it was possible for them to export sugar at a very low rate.

The Tariff Act of 1902 was meant to check the imports of sugar into India, which were thus artificially stimulated. The amount of the countervailing duties levied by this Act was limited to one-half the amount of the surtax or the difference between the import and local consumption duties, in the countries in question. The provisions of this Act were framed with due regard to the resolution of the Brussels Convention which had been signed in March of that year. The parties to the Convention had agreed to abolish all direct or indirect bounties on the production of sugar. It was agreed that sugar coming from countries where bounties were given on its production was to be specially taxed to the extent of the amount of the bounty.

In December 1903 the countervailing duties were abolished in the case of those countries which had adhered to the convention. The duties remained in force for some years in respect of Denmark, Russia, Chili and the Argentine Republic. But the imports of sugar from these countries were practically nil and the duties were at last abolished in 1909 and 1912.

So far as any direct effect on the cultivation of sugar-cane, and on imports or prices of sugar was concerned, these measures were according to Sir Edward Baker without material result. The unsteady nature of the legislation in this connection dislocated trade and gave rise to many complaints. Some credit attaches however to these measures to the extent to which they helped to bring the Brussels Conference of 1901-02 to a successful conclusion.

From the above brief summary of the actions taken by the Government in this matter, we see that the aim of the Government was not to give any special protection to the Indian Sugar Industry. The object of these measures was to remove the unfair advantage which manufacturers in other countries had on account of the bounty system so as to fulfil the conditions of free trade and fair competition. But these efforts, as we have seen above, were not successful.

Imperial Preference.—The question of introducing a system of Imperial Preference with a view to establish greater solidarity between the different parts of the Empire had been urged by the Colonies on the United Kingdom at the Colonial Conferences of 1887, 1894 and 1897. Some of the Colonies had already established a system of preference in favour of the United Kingdom. The Colonial Conference of 1902 passed the following resolution with reference to this question:—

"1. That this Conference recognises that the principle of preferential trade between the United Kingdom and His Majesty's Dominions beyond the seas would stimulate and

facilitate mutual commercial intercourse, and would, by promoting the development of the resources and industries of the several parts, strengthen the Empire.

"2. That the Conference recognises that, in the present circumstances of the Colonies, it is not practicable to adopt a general system of Free Trade as between the Mother Country and the British Dominions beyond the seas.

"3. That with a view, however, to promoting the increase of trade within the Empire, it is desirable that those Colonies which have not already adopted such a policy should, as far as their circumstances permit, give substantial preferential treatment to the products and manufactures of the United Kingdom.

"4. That the Prime Ministers of the Colonies respectfully urge on His Majesty's Government the expediency of granting in the United Kingdom preferential treatment to the products and manufactures of the Colonies either by exemption from or reduction of duties now or hereafter imposed.

"5. That the Prime Ministers present at the Conference undertake to submit to their respective Governments at the earliest opportunity the principle of the resolution and to request them to take such measures as may be necessary to give effect to it."

India is not mentioned in this resolution. The Government of India were, however, asked by the Secretary of State to make any observations and suggestions which they might wish to make from the point of view of Indian interests, in connection with this resolution. Lord Curzon's despatch of 22nd October 1903, and Sir Edward Law's minute were issued in reply to this.

In 1907, the India Office prepared a memorandum on this question which was submitted to the Colonial

Conference which met in that year. Sir James Mackay, (now Lord Inchcape) as representative of the India Office made a speech in this connection before the Conference.

On all these occasions the official view was expressed against India joining any system of Imperial Preference. In view of the fact that this question has recently obtained some prominence, and is one of the problems on which the Fiscal Commission was invited to report, a brief reference to the views of the Indian Authorities in 1903 and 1907, may not be out of place.

If at all India is to take part in any scheme of Imperial Preference, it should be exactly on the same footing as the Colonies. According to this view, India would be free to impose duties with a view to protect indigenous industries even against imports from the United Kingdom and other parts of the Empire. In adopting a protective policy India might give a sort of preferential treatment to the products and manufactures of the United Kingdom and of the Colonies, so far as such a treatment was consistent with the industrial wellbeing of India. This could be done either by a reduction in the duties on products coming from the Empire or an increase in the duties on products coming from countries outside the Empire. Protection of indigenous industries on national lines and preference to Imperial goods would thus go hand in hand. Complete free trade within the Empire is not contemplated in this scheme.

This, the only way of uniting India with the rest of the Empire by a scheme of Imperial Preference, could not be thought of by the Indian Authorities in 1903 and in 1907. India was ruled in those years by the Principles of Free Trade without regard to her national interests. The same fears of giving up the Doctrines of Free Trade, which led the English Government to refuse to reciprocate the preference which was extended to them by the Colonies, led the Anglo-Indian authorities to refuse to join in a scheme of

Imperial Preference. This refusal was not prompted by any definite ideas about the interests of India, but by the fear that if India were allowed to move an inch from the path of Free Trade, the industrial interests of the United Kingdom would be the first to suffer.

The foregoing remarks will be borne out by the following extracts:—

1. The Government of India in their despatch of 22nd October 1903 wrote as follows:—"In the first alternative India might join the scheme on exactly the same footing as any of the self-governing colonies, and would, if need be, impose duties of a protective character, against imports from the United Kingdom and other parts of the British Empire, subject to the condition that, so far as her circumstances permitted, she should give substantial preferential treatment to the products and manufactures of the United Kingdom.....

".....It is sufficient to say that this alternative is not, so far as we can judge, within the sphere of practical politics. All past experience indicates that in the decision of any fiscal question concerning this country, powerful sections of the community at home will continue to demand that their interests, and not those of India alone, shall be allowed consideration.....If Indian industries are in need of, or should now desire a measure of protection, protective measures would necessarily seriously affect imports from the United Kingdom, and would only in a secondary degree affect those from foreign countries We cannot imagine that the merchants of Lancashire or Dundee, to mention two interests alone, would be likely to acquiesce in such a course even though it were accompanied by still higher duties against the foreigner, or that it would be accepted by the Home Government. We therefore dismiss this alternative as beyond the range of the present discussion."

II. The India Office Memorandum submmitted to the Colonial Conference of 1907 concludes with the following passage;—"It is doubtful how the measure would commend itself to public opinion in India, and its adoption would be likely to give rise to demands for other changes in the fiscal system of the country which would be difficult to refuse, and injurious to prominent industries in the United Kingdom to grant."

III. Sir James Mackay (now Lord Inchcape) who was supposed ro represent Indian interests in the same Conference spoke as follows during the discussion on the question of Preferential Trade;—"It has been suggested that India might join a preferential tariff scheme, with liberty to impose duties of a protective character against imports from the British Empire, if accompanied by still heavier duties against foreign imports something the same as you propose to have in Australia. There is no doubt that, if a preferential policy were adopted which admitted of the establishment of protective tariffs by Great Britain, proposals in this direction would be put forward and pressed by Indian manufacturers. They would claim the same right to protect their manufactures as the Colonies enjoy, and it would be difficult to offer a logical opposition to such a demand."

Other Changes in the Tariff, 1899–1913.—The official attitude towards the fiscal arrangements of our country which has been explained in the preceding sections remained the same to the end of this period. The following brief summary of the events of 1910 and 1911 will illustrate the point.

The agreement with China had brought about a permanent decline in the Opium Revenue, and in 1910 the Finance Member thought it necessary to strengthen the basis of the revenues. The bulk of additional taxation during this year took the form of an increase in the existing customs duties on liquors, tobacco, silver and petroleum.

The mentality of the official mind is evident in the apology which Sir Guy Fleetwood Wilson was at pains to give in proposing these measures. '*I hope,*' he said, '*I shall not be charged with framing a Swadeshi budget.*' He had to emphasise the fact that the enhanced Customs duties were attributable solely to the imperative necessity of raising additional revenue and that there was not the slightest indication towards a protective customs tariff.

This was the first budget presented to the new councils constituted under the Act of 1909. The objections of several members including Gokhale against the duties on Petroleum and Silver were set aside. It may be noted that the alternative proposals of Gokhale—an enhanced import duty on Sugar, an export duty on Jute, and Raw Hides and Skins, and an increase in the General Customs Duties—have been all given effect to on subsequent occasions.

An interesting development took place next year (1911). The high duties on tobacco, it was said, did not give the expected return and it was considered probable that a somewhat lower range of duties would be more productive. A reduction of one-third on all classes of tobacco was accordingly proposed. A strong suspicion was expressed in the Council to the effect that the reduction was due to a vigorous agitation against the tobacco duties of 1910 carried on in England on behalf of the tobacco trade. No reply was given to this point by the Finance Member.

On account of these changes the Customs Revenue steadily increased. From 4·7 m. £. in 1909 it rose to 7·2 m. £. in 1913. The average Customs Revenue during this period amounted to 4·7 m. £.[1]

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1. Table III. Customs revenue in m. £

Year.	Net Revenue	Year.	Net Revenue
1899	3 0	1907	4 8
1900	3 1	1908	4 6
1901	3·6	1909	4 7
1902	3 7	1910	6 4
1903	3 8	1911	6 2
1904	4 1	1912	6·9
1905	4·1	1913	7·2
1906	4 1	average.	4·7

SECTION 5.

BRITISH EXPORTS TO INDIA.

Before we proceed further, it would not be out of place to refer to the privileged position which British Exports enjoyed in India as compared with other countries.

In 1903 and 1904, the British Board of trade calculated the relative incidence of foreign and colonial tariffs on British exports. This was approximately ascertained by the mean "ad valorem equivalent of the impot duties imposed by each country on the main classes of goods which are exported from the United Kingdom to all destinations, and not solely to the particular market under consideration." The idea was to take account of those foreign and colonial import duties which may be high enough to exclude British goods from the particular countries imposing them. The result of the calculation was as follows:—

Estimated[1] average "ad vlorem" equivalent of the Import duties levied by the undermentioned countries on the principal manufactures exported from the United Kingdom—

	Per cent.		Per cent.
Russia	131	Roumania	14
Spain	76	Belgium	13
U. S. A.	73	Norway	12
Portugal ..	71	New Zealand ...	9
Austria-Hungary	35	Japan	9
France	34	Turkey	8
Argentine Republic	28	Switzerland	7
Italy ...	27	Australia	6
Germany	25	South Africa* ...	6
Sweden ...	23	China	5
Greece ...	19	Holland	3
Denmark	18	British India ...	3
Canada*	17	*(Preferential Tariff)	

The least obstruction to English exports in 1904 was in Holland and in India. In Australia and South Africa it was twice as much. In Canada it was nearly 6 times. South Africa and Canada were supposed to give preferential treatment to English goods. The total value of the

1. P. P. Cd 2337 of 1904.

produce and manufactures of the United Kingdom exported in 1904 amounted to 300 m. £. Out of this India took the largest amount of goods valued at 40 m. £. Germany came next with 25 m. £. It may be noted that in 1904, the Import Duties settled after the controversy of 1894-96 prevailed in India. During the years 1882 to 1894, this nominal obstruction of 3 per cent. also did not exist.

With reference to the above calculation, the Board of Trade made the following remarks:—"It would not, however, be justifiable to conclude from the above figures that the Customs Tariffs of the various countries are ranged in the same order as regards their comparative *protective efficiency*. The protetive effect of a tariff is not necessarily proportionate to the average level of the duties, but also depends on many other factors, such as the comparatively advanced or backward state of the home industries protected. A 25 per cent. duty in Germany may give as complete protection to a native industry as a 100 per cent. duty in a more backward country. A high duty may have no protective effect, if the article to which it applies happen not to be manufactured in the country in question."

Industrially, India was in 1904 and is still backward. It is evident from this and from recent events, that during all these years India could have derived a larger revenue from Customs without being protective.

SECTION 6.

THE WAR AND AFTER (1914-1920)

In the first two years of the war additional taxation was not imposed in our country. In 1916, however, it was not thought wise to go on with uncovered deficits The measures introduced in March of that year were contemplated to bring additional revenue from three sources. Higher rates on larger incomes and an increase of four annas per maund in the Salt Duty were to give 1·5 m. £. to Government. At the same time important changes were introduced in the tariff with a view to bring in more than 2 m. £. of revenue.

The Tariff changes of 1916 may be thus summarised. The General Rate was increased from 5 per cent. to 7½ per cent. The duty on sugar was raised to 10 per cent. The Free List

was materially curtailed; it was confined only to certain specified articles.[1].

A large number of articles formerly free were brought under the pale of taxation. The special duty on Arms, Liquors, Tobacco and Silver manufactures was increased. Export duties were levied on Tea and Jute. The Import duty on Petroleum (1½ annas a gallon) and the Export duty on Rice (3 annas a maund) were left untouched.

In the case of silver plate and other silver manufactures an anomalous position existed. Indian silversmiths and manufacturers of silver thread and silverware paid a duty of 4 as. an ounce on imported silver, whereas the general duty of 5 per cent. only was levied on imported manufactured articles of silver In order to remove this defect silver plate and silver manufactures of all sorts were subjected to a duty of 15 per cent. It was, however, provided that where the silver contained in an article could be ascertained, a duty of 4 as an ounce should be levied on the amount of silver and a duty of 7½ per cent. on the difference between the value of such silver calculated at the market value of silver and the real value of the article.

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1. They were—

First —Gold coin and bullion, and current Indian silver, nickel, bronze and copper coin.

Second —Certain essential materials—raw hides and skins, raw cotton, raw wool and paper-making materials

Third —Certain Agricultural requisities—machines and implements for husbandry, dairy appliances, and manures, including certain Chemical manures

Fourth —Certain articles, the exemption of which follows logically from the practice of levying an excise on cotton goods and beer, *viz*, cotton yarns and cotton thread, cotton spinning and weaving machinery, certain stores and articles used in the manufacture of cotton goods, and hops.

Fifth —A few specific articles the exemption of which is either (*a*) supported by the practice of most countries—animals, works of art devoted to public purposes, books, natural science specimens, uniforms of public servants and military officers, and arms forming part of their equipment, or (*b*) justified by their special importance in Indian conditions.—quinine and Anti-Plague serum.

Sixth —Salt imported for manufacturing purposes, Oil seeds imported by sea from a Native State etc

A glance at the following table will give a more clear idea of the changes that took place:—

	Ad valorem percentage of Import Duties.	
	The old rate.	The new rate
General Import Tariff ..	5	7½
Sugar	5	10
Grain and pulse; tea chests and lead sheets used in their manufacture, and tea racks, firewood, printing and lithographing material; machinery other than the cotton spinning and weaving machinery exempted as above; railway material, including, Telegraphic apparatus imported for Railways, and ships. An equivalent quantitative rate (8 annas per ton) on coal, Coke and Fuel	Nil.	2½
Fresh fruits and vegetables, fish maws, bamboos, bridles and fibres, horn, raw Jute, Oil cakes, plants, precious stones and pearls, gum olibanum, motor cars for goods, and earth, common clay and sand.	Nil	7½
Iron and Steel	1	2½
Other metals	5	7½
Arms and Ammunition ...	10	20
Liquors ..	Various	rates.
Cigars and Cigarettes	20	50
Silver manufactures	5	15
	Export Duties	
Tea	Nil	Rs. 1-8-0 per 100 lbs
Jute—Raw	Nil.	Rs. 2 4-0 for bale of 400 lbs. = 5% *ad valorem*
Jute—manufactured (sacking)	Nil.	Rs 10 per Ton.
Jute ,, (Hessians)	Nil.	Rs. 16 per Ton.

In the above list we miss cotton manufactures. In connection with this most important article of import the gradual force of persistent agitation had slowly brought conviction to a second generation of Anglo-Indian officials. The intensity of Indian feeling in the matter was gradually appreciated. But the Government of India were yet helpless to do what they thought best in the interests of India. The apology which Sir William Meyer gave in this connection in March 1916 may quoted in full:—

"The only other important item in the existing tariff on which I have not yet touched is cotton manufactures. For the last twenty years the position has been that cotton twists and yarns of all kinds are free of duty, while a duty at the rate of 3½ per cent. is imposed on woven goods of all kinds, whether imported or manufactured in Indian mills. We propose to leave the position here as it stands.

"The Council will naturally ask why at a time when fiscal necessities compel us to make a material enhancement of the tariff in nearly every other direction, we should leave cotton alone. Well, the Government of India have not failed to represent their view that there shoud be a material increase in the cotton import duties, while the cotton excise which has formed the subject of such widespread criticism in this country, should be left unenhanced, subject to the possibility of its being altogether abolished when financial circumstances are more favourable. But His Majesty's Government, who have to consider the position from a wider standpoint, felt that the raising of this question at the present time would be most unfortunate, as it would provoke a revival of old controversies at a time when they specially desired to avoid all contentious questions both here and in England and might prejudice the ultimate settlement of the larger issues raised by the War. His Majesty's Government feel that the fiscal relationship of all parts of the Empire as between one another and the

rest of world must be reconsidered after the war, and they desire to leave the question raised by the cotton duties to be considered then, in connection with the general fiscal policy which may be thought best for the Empire, and the share, military and financial, that has been taken by India in the present struggle. His Majesty's Government are aware of the great interest taken in this question in India and of the impossibility of avoiding some reference to it when new taxation has to be raised, but they are confident that their decision is in the best interests of India and that premature discussion of this particular issue could only be harmful. We fully realise the force of these arguments at the present juncture, and consequently we are reluctantly compelled not to propose any modification in respect of the cotton duties."

The Chairman of the Fiscal Commission, Sir Ibrahim Rahimtoola, then a member of the Imperial Legislative Council moved an amendment to the effect that the import duty of 3½ per cent. on cotton manufactures be raised to 6 per cent. He contended that when the General Tariff had been raised by 2½ per cent it was not improper to raise the Cotton Duties to the same extent. The amendment, it need hardly be stated, was defeated by the official majority. During the course of his speech on the amendment, Sir Ibrahim said, "Sir, it appears to me that it is rather hard that when the Government of India want the revenue, when the country is willing to agree to give them that additional revenue from a source which is agreeable to themselves, that they should be debarred from doing so and in that way necessitate the proposal for the increased salt tax."

In 1917, it was resolved to give a Special War Contribution of 100m. £. to the Imperial Treasury. This necessitated further taxation. The Super-tax was imposed. A surcharge on Railway goods traffic was levied. Two

changes were made in the Tariff. The export duty on Jute levied in the previous year was doubled; and the import duty on Cotton Goods was raised from 3½ per cent. to 7½ per cent, leaving the excise duty on cotton untouched. Referring to his speech in this connection in March 1916, quoted above, Sir William Meyer said "To-day I am able to announce that in view of the taxation required to make our War Contribution worthy of India and of the place we desire her to hold in the Empire, His Majesty's Government have now given their consent to our raising the Import Duty on Cotton Goods from 3½ per cent. as it now is, to 7½ per cent. which is our present General Tariff Rate"

This action was immediately followed by a strong agitation in England. It was defended on the ground that the duty was necessary to enable India to give the war contribution of 100 m. £ Commenting on this agitation the 'Times' (London) wrote as follows on March 5th, 1917 —"The Indian cotton duty has always been politically, economically, and above all morally indefensible Opposition to it unites every class in India, from the official members of the Government to all grades of the Indian community. It has made a grave breach in the moral basis of the British control of India It was deeply resented from the outset, and has remained an open sore India considers that the excise was imposed out of fear of the Lancashire vote, and no one can say that India is wrong in her belief."

Two other measures introduced in this year may be noted. (1). The change in the duty on silver manufactures made in 1916 involved administrative difficulties, and therefore a uniform rate of 10 per cent. was now to be levied on silver plate and silver thread and wire, and silver manufactures of all sorts. (2). With the object of restricting the consumption of motor spirit during war time, an Act was passed in February 1917, by which an excise

and customs duty of 6 as. a gallon was imposed on motor spirit. This was to be in operation during the war and six months after. But this tax became a useful source of revenue, and therefore the duration clause was removed in in March 1919.

Reference has already been made to the views of the Government of India regarding the question of Imperial Preference. Following perhaps the development in connection with this problem in England, the Government of India introduced a measure in 1919, which has committed India, so far as such a measure can commit, to a system of Preferential treatment to the Empire.

In September 1919 a tax of 15 per cent, was imposed upon the export of Hides and Skins. The object of fostering the Indian tanning industry was coupled with the other object of maintaining a key industry within the Empire. It was accordingly provided that a rebate of two-thirds of the duty shall be given in the case of those Hides and Skins which were exported to any part of the Empire, including the countries in respect of which a mandate of the League of Nations was exercised by His Majesty's Government.

In view of recent developments the way in which this rebate is granted deserves notice. The exporter is permitted to pay only a 5 per cent. duty at the time of shipment, if he executes a bond for the remaining 10 per cent; the condition being that the bond shall become payable if a certificate of Empire tanning is not produced within a prescribed period. This period was fixed at 6 months in the beginning; it was extended first to 12 months and later to two years. Recently (November 1921) it has been extended to 3 years. The mischief of these executive concessions is evident. Unless the payment of the bonds is enforced, a direct impetus will be given to the export of Hides and Skins via British centres in the hope

that ultimately these bonds will be cancelled. In the meanwhile the Indian Treasury is made to suffer; the Indian tanning industry receives little help, and it is not known to what extent this key industry remains within the Empire.

The effects of the great changes described above are at once visible in the revenue derived from Customs during the war and after [1] On account of the sudden dislocation of trade, during 1914 and 1915 we observe a fall in this source of revenue With the various increases in the Tariff in 1916 and in 1917, the Customs revenue rose to 8·6 m. £. in the former year and to 11 m £ in the latter, in which year it occupied the second place (next only to Land) in the Revenue System of India[2] On account of the gradual restoration of trade after the Peace, there has been a still further rise in recent years, so much so that according to the final accounts of 1920–21, Customs and Land yield almost the same amount of revenue[3] The ascendency which "Customs" obtained in 1920 has been made as it were secure and permanent by the further changes which have been introduced by the Reformed Legislature in 1921 and 1922

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1 Table IV. Customs revenue in m £

	Year	Gross revenue	Net revenue
	1914	6 3	6 1
	1915	5 9	5 7
	1916	8 6	8 4
	1917	11 0	10 7
	1918	12 1	11·8
Revised Estimates	1919	14 9	14 6
Budget Estimates	1920	17·0	16 6

2 Accounts, 1920–21 —

	Rs.
Customs revenue, gross ...	31,89 lakhs
Land revenue gross .	31,97 lakhs

SECTION 7

SINCE THE REFORMS, 1921 AND 1922

From the subordinate position which Customs Revenue was deliberately assigned in previous years, it was suddenly given a lift during the period of the war, and in 1920, as we have just seen it occupied a position as important as that of Land Revenue. One might imagine from this that a further increase in Customs was not possible. Yet this source of revenue which was the last to be thought of in earlier years, was the first to which the Finance Member turned to meet his deficit of 19 crores and another of 32 crores in March 1921 and in March 1922 respectively The following words of the Hon. Mr. Hailey in presenting the budget for 1921-22 are a curious commentary on the policy of the Government in days gone by—"The first additional source of revenue available is Customs I think the House will agree that the existing tariff heads are such that, in the case of most articles, both the trade and the consumer can undoubtedly bear some increase".

This was not to be a protective tariff. The Finance Member was careful to point out that his Customs proposals from which he expected 8 crores of additional revenue had the sole object of producing more revenue and had no ulterior motive of a protective or any other kind.

In the same strain in presenting the budget for 1922-23, Mr. Hailey said in March 1922 that "when additional revenues are required, the first head to which one's thought naturally turns is Customs". Before proposing to increase the Customs Duties, however, the Finance Member had to take note of the fact that the Fiscal Commission was still sitting. But the pressure of financial necessity was so great that irrespective of the recommendations of the Commission, an increase in the Customs duties was inevitable. The proposed increase was however "not to involve any important change of principle in the existing fiscal arrangements".

The changes made in 1921 and in 1922 may be thus summarised:—

	1920	1921	1922
General Import Duty.	7½%	11%	15%
Cotton piece goods	7½%	11%	11%
Yarn	——	——	5%
Machinery and stores of Cotton spinning and weaving mills	——	2½%	2½%
Iron Steel and Railway plant	2½%	2½%	10%
Matches	——	12 as per gross box	Re 1-8 per gross box.
Sugar	10%	15%	25%
Luxury articles—motor cars, motor cycles and tyres (including lorries) silk piece goods, fire works, clocks and watches, musical instruments, cinematograph films, silver and gold thread and wire and manufactures, jewellery and jewels, etc	Varying from 7½% to 10%	20%	30%
Cigars and cigarettes	50%	75%	
Other sorts of manufactured tobacco.	Re 1-8 per pound	Rs 2-4 per pound	——
Kerosine	1½ anna per gallon	1½ anna per gallon	2½ annas per gallon
Kerosine—Excise Duty		——	1 anna per gallon
Liquors —			
Ale, Beer, Cider, etc per gallon	Rs as ps 0 4 6	Rs as. ps 0 6 6	Rs as ps 0 8 0
Liquors, untested, per gallon	14 10 0	25 0 0	30 0 0
Liquors, tested, per proof gallon	11 4 0	18 12 0	21 14 0
Perfumed spirits, per gallon	18 12 0	30 0 0	36 0 0
All other spirits per proof gallon	11 4 0	18 12 0	21 14 0
Wines, sparkling per gallon	4 6 0	9 0 0	
Wines, other sorts per gallon	1 12 0	4 8 0	

As in 1917 the proposal to increase the import duties on cotton goods without a corresponding increase in the cotton excise duty in 1921, was followed by an agitation on the part of interested parties in England. Though nothing is laid down in this connection in the Act of 1919, the recommendation of the Joint Select Committee which considered the Government of India Bill is clear on the point. It is to the effect that "the Secretary of State should as far as possible avoid interference on this subject when the Government of India and its Legislature are in agreement, and they think that his intervention when it does take place should be limited to safe-guarding the international obligations of the Empire or any fiscal arrangements within the Empire to which His Majesty's Government is a party"

Mr Montagu's reply to the Lancashire deputation on 23rd March 1921 was in conformity with this recommendation, and it shows that for the first time in history, the Secretary of State was determined to maintain the right of the Government of India to consider the interests of India first, in shaping their fiscal policy He said —"After that Report by an authoritative Committee of both Houses and Lord Curzon's promise in the House of Lords, it was absolutely impossible for me to interfere with the right which I believe was wisely given and which I am determined to maintain—to give the Government of India the right to consider the interests of India first, just as we, without any complaint from any other parts of the Empire, and the other parts of the Empire without any complaint from us, have always chosen the tariff arrangements which they think best fitted for their needs, thinking of their own citizens first". In his despatch of 30th June 1921, the Secretary of State accepted on behalf of His Majesty's Government the principle recommended by the Joint Committee, referred to above.

An interesting development took place in connection with the Budget of 1922-23. With a view to meet the heavy deficit of 32 crores large additional taxation was necessary Among the measures proposed was an increase in the General Import Duty from 11 per cent. to 15 per cent. The Excise duty on Cotton goods was left at 3½ per cent. in 1921, it was now proposed that a corresponding increase should be made in this duty by raising it to 7½ per cent. Manchester was naturally jubilant over the proposal, and it was alleged in the Legislature and elsewhere that the proposal was due to actual or apprehended pressure from Manchester. The Finance Member emphatically denied the existence of any such pressure, though it is doubtful whether he succeeded in convincing the Legislature about it. According to him the needs of revenue were the sole justification for the proposed increase and that if the Excise duty was not raised, the middlemen would profit by means of the enhanced prices which would in any case follow the higher import duty.

The proposal to increase the Cotton Excise Duty was thrown out by the Legislative Assembly. After this an unexpected development took place in that body. A proposal was made that the Import Duty on Cotton piece goods should be left untouched at 11 per cent. though the General Import duty was to be raised to 15 per cent Though the Government wanted a large additional revenue, and though their proposals to increase the Salt duty and the Cotton Excise duty had been thrown out, they accepted this proposal in favour of a smaller duty on Cotton piece goods, (it was carried by 68 votes against 30) on the ground that it was not worth while bringing about all those undesirable consequences which would follow from the increase in the general cost to the consumer for the sake of a revenue of 140 lakhs of rupees.

SECTION 8

CONCLUSION

The conclusions at which we arrive from the foregoing review of the fiscal arrangements of our country are :—

(*a*) That the Fiscal policy of the Government of India was till recently greatly influenced by considerations other than Indian.

(*b*) That the policy was laid down usually by the Secretary of State who was influenced by party considerations—chiefly the Lancashire Vote.

(*c*) That on account of these reasons the undermentioned consequences followed —(1) The policy of Free Trade was imposed on India against her will; (2) the opportunity to develop her national industries on protective lines was denied to her; (3) she was left to be an agricultural country supplying raw products for the industries of England and other countries; (4) and the Customs revenue of the Government of India occupied a very subordinate position in their Revenue System. Even in times of difficulty an addition to the Customs revenue was the last to be thought of.

(*d*) That the stern realities of the war gradually gave Customs a better position in the Revenue System of India.

(*e*) That the convention established by the Joint Select Committee has given some independence to the Government of India and the Indian Legislature jointly, in the management of Our Fiscal Policy.

PART 2.
SOME ASPECTS IN DOMINION AND BRITISH FISCAL POLICY.

SECTION 1
THE OLD COMMERCIAL POLICY AND THE ADOPTION OF FREE TRADE IN ENGLAND.

The Old Commercial Policy.

The year 1783 witnessed the independence of those Colonies of England, which now form the Great Republic of the United States. England as represented by the Colonial Office, had not learnt a lesson from the war of American Independence. In commercial as well as political matters the same old ideas prevailed.

The desire for a strong self-sufficient state was predominant in Parliament If the Colonies were content to supply foodstuffs and raw materials in exchange for manufactured goods from England, it was believed, this desire could be fulfilled It was to this end that the British Parliament took upon itself the task of fixing the import duties on goods—British and foreign—entering colonial ports

The Navigation Law (1651-60), which gave a monopoly of the carrying trade to English ships had the same object in view. On the one hand England could increase her commercial activities, on the other she could increase her naval strength whenever necessary with the help of the large number of experienced seamen of her commercial fleet. In spite of their disadvantages, these laws were blessed by no less an authority than Adam Smith, by saying that "as defence, however, is of much more importance than opulence, the act of navigation is, perhaps, the wisest of all the commercial regulations of England."

To compensate as it were for their sacrifices the colonies were given a preference in the English market. The preferences ranged over a variety of articles, and they were substantial in amount. The system of preferential trade is advocated today as the basis of consolidating the Empire. It is to be the manifestation of the economic interdependence of the different members of the Empire In these early days, however, when the colonies had no voice in determining their fiscal arrangements, the system of preference and its details were the work of the British Parliament designed primarily in the interests of the United Kingdom. Of great importance in this connection were the Corn Duties, whose chief object was to protect British agriculture.

It is well known that the old commercial policy was abolished during the years 1846-49 when England adopted Free Trade. But this great change did not come all of a sudden. Since the beginning of the nineteenth century, inroads were made on the old commercial system, loosening at least in part its rigid and exclusive character. These changes were the outcome of a new set of conditions, partly in the Colonies and partly in England, where the old commercial system was believed to have outlived its usefulness, when England became the leading manufacturing and exporting nation in the world.

Among these measures may be noted (1) the Act of 1809 which extended the free port system to certain colonies and allowed direct trade between them and certain European ports; (2) the Act of 1822, which abolished about 30 acts of the old system; extended the free port system; liberalised the Navigation Laws; and imposed import duties in cases where import was prohibited before this; (3) the Act of 1824, which abolished several laws, the effect of which was to prohibit semi-manufactured goods to the colonies, to prohibit the export of manufacuring machinery

and to penalise the emigration or the recruitment for emigration of skilled artificers either to the colonies or other countries, and (4) the Act of 1825, which greatly diminished the rigour of the Navigation Laws, and opened colonial ports to practically all foreign goods, which were however to pay duties sufficient to protect the interests of British manufacturers in these colonial markets.

It is of interest to note that protectionist duties in the colonies which now form the Dominion of Canada were determined by what are known as British Possessions Acts. These acts were passed by the British Parliament "to safeguard British manufacturing and commercial interests in the colonies", and the colonies had no voice in framing them. A system of differential duties was established by these acts with a view to reserve the colonial markets for British exports.

As pointed out above, Colonial imports received a preferential treatment in the British tariff. The British Tariff Acts which affected the British Tariff and the British Possessions Acts which affected the Colonial tariffs became counterparts of the same system. Of course, the colonies had no voice in determining the amount of preference that they were to get just as they had no voice in determining the amount of preference that they were to give. No doubt, the colonies often petitioned for better terms and larger preference, but these petitions, as may be expected were shelved in the Colonial Office.

But as we have seen above, this rigid system was gradually giving way. With the measures of 1822-25, there were unmistakable signs that England was moving in the direction of Free Trade. Besides at this time, (1822-30), there was in England a growing indifference to the colonies and to the idea of extending the Empire. The colonies were so many avenues for the maintenance and extension of British export trade. It was however

believed that like the United States of America, the other colonies would also in course of time sever their connection with the British Government. This prospective separation of the colonies was looked upon without great concern, because it was also believed that such seperation would not involve the loss of the export trade with them. And in this connection the experience of the United States was cited. From the Declaration of Independence to the Civil War (1861-65), when the era of protective tariffs began in the United States, there was a continuous increase in the trade with them

The old system after the reform of the Parliament, 1832-46.

The old commercial system as it existed during these years may be divided into four parts:—(1) the Navigation Laws, (2) British protectionist tariffs, including the Corn Laws; (3) British Possessions Acts, and (4) laws which restricted the Colonies from enacting any legislation, which went against the fiscal measures of the British Parliament. The first three divisions had been greatly modified during preceding years, the fourth had remained intact. By the end of the thirties, however, all these divisions of the old system were attacked. The first three were attacked in England, the third and the fourth were attacked in the colonies.

The Anti-Corn Law League which began its work in 1839 directed its powerful propaganda against the Corn Laws which formed the basis of the old system. That section of the press which represented the manufacturing and commercial interests of England gave its heartiest support to the campaign of the league. "British manufacturers were no longer in need of protection at ports in the United Kingdom. The supremacy of British manufacturing had by this time carried it far beyond need of tariff protection that was afforded (to) it in the

eighteenth century by the old commercial system. Manufacturing England threw itself into the agitation for an end of the old system because the advantages of the old system for manufacturers were of the past, while the disadvantages that had survived the inroads of 1809-1825, and in particular the Corn Law of 1828, were regarded as hampering to the industrial and social development of the United Kingdom." (Porritt, p. 35).

Upper Canada was the scene of agitation against the constitutional and fiscal restrictions of the old commercial policy But this agitation had little influence in shaping the policy which was adopted by the Parliament in 1846–49 The new policy was adopted by England not because the Colonies protested against the old, but because the old policy had outlived its usefulness in the United Kingdom The agitation in Upper Canada is of importance, however, as the first beginning of the forces which we shall trace in the colonies after 1849. It also shows the early date at which American influence had begun to exert itself in Upper Canada

The adoption of free trade.

The year 1846 is memorable in the fiscal history of England as the date when the British Parliament put an end to the system of Protection and adopted the system of Free Trade. The Corn Laws were abolished. So also were other laws of the old protective regime.

Another Act of great importance in colonial history was passed in the same year. We have seen that the British Parliament determined from time to time the preferential duties that were to be levied at colonial ports on British goods. With the adoption of Free Trade in England, no more preference was to be given to colonial imports. The colonies who suffered from this sudden withdrawal of preference to their goods in the English

market, naturally asked that they should no longer be compelled to give preference to British goods in their own markets. The Enabling Act of 1846, as it is called, gave power to the colonial legislatures to abolish the preferential duties in favour of English goods. This is another instance of "the growing confidence of British manufacturers in their ability to hold their own in all British markets, insular and colonial, against competition from any other manufacturing countries." (Porritt, p. 53.)

The far-reaching consequences of this act were not realised at this time. As we shall later, it caused great surprise and alarm in England, when it was known that the colonies could under this Act impose protective duties against Britsh products.

With the measures noted above must be classed the repeal of the Navigation Laws in 1849. With the adoption of Free Trade it was not possible to continue a measure which protected navigation. The Canadian Legislature asked for freedom from its operation in 1847. At the same time, confidence was felt in the strength of England's sea-power and mercantile marine, so that the protection afforded by the Navigation laws was no longer necessary.

SECTION 2

CANADIAN AND AUSTRALIAN STRUGGLES FOR FISCAL FREEDOM

The adoption of Free Trade and Political development in the Colonies.

The connection between the movement for responsible government and that for fiscal freedom is so great, that it is necessary for us to have a glance at the broad features in the political development in the colonies. In the evolution of political development in the Colonies, according to

Porritt, seven distinct stages or eras can be marked. They are :—

(1) The era of personal rule of the governor, acting under instructions from the Colonial Office.

(2) The era of a legislative council, nominated by the governor.

(3) The era during which part of the legislative council was the instrument of an informal kind of representation—a means of feeling and in some degree conforming to public opinion.

(4) The era in which part of the legislative council was elective—a minority of the council, but none the less an influential minority.

(5) The era in which came the separation of the legislature into two chambers, one nominated and the other elected—in brief the era of representative institutions.

(6) The era of responsible government, by which the executive was placed in the hands of men practically nominated by the majority in the popularly elected house, and

(7) The era of confederation, with the status and weight of confederation, the era which began with the confederation of British North American provinces under the constitution of 1867, which witnessed the creation of the Commonwealth of Australia in 1900; and finally the creation of the Union of South Africa in 1910

At the time when the British Parliament carried the Free Trade measures in 1846, only the British North American Colonies, now known as the Dominion of Canada were approaching the era of responsible government. The other colonies in Australia and South Africa were in less developed stages of political development. Following the classical report of Lord Durham, the Union Act of 1840 by

which Lower and Upper Canada were united was passed. With the Governor-Generalship of Lord Elgin (1846), responsible Government was firmly established in Canada. The Canadian Legislature tested its power in 1849 by passing the Rebellion Losses Act, adverse motions to which in the Parliament were defeated

Soon after this simultaneous establishment of commercial and political freedom in the Colonies, chiefly in Canada, we find the beginning of a long conflict which lasted upto 1895 between the self-governing Colonies and the Colonial Office in connection with Colonial fiscal policy. It was the fond expectation of British statesmen that the new fiscal policy inaugurated by them in 1846, would be adopted by the Colonies as well The Enabling Act of 1846 gave power to the Colonies, by which it was supposed they would abolish all differential duties by the adoption of complete Free Trade. "Free trade, it was conceived at Whitehall and at Westminster, and in the constituencies of the United Kingdom, was henceforward to be the permanent and unvarying fiscal policy of the Empire, as in the days of the old commercial system restriction had been the policy in force in the United Kingdom and in all the oversea possessions of Great Britain". (Porritt, p 66).

As we know, however, all the self-governing colonies, except Newfoundland, came to hold entirely different ideas about their fiscal policies. One after another these colonies imposed high protective duties, which fell equally on British and foreign goods until in 1897, the modern preferential system was inaugurated. To counteract this growing protective tendency in the colonies, the Colonial Office carried on a systematic propaganda during all these years from 1847 to 1895, for a uniform Empire tariff based on the principles of Free Trade. The Colonial Office and the Board of Trade were not tired during these

years to issue long dispatches and minutes for the establishment of Free Trade. Equally long were the dispatches sent in reply to these, from the Colonial Capitals. This propaganda failed; it succeeded only in one case and that too for a time. In the Australian Act of 1850, a section was introduced by which the legislatures of the Australian Colonies were prevented from enacting tariffs with differential duties. It was not till 1895, that this section was finally repealed.

It may be pointed out here that the fiscal controversy to which we have just referred does not apply to all the British oversea possessions. These are under the charge of two departments of the English Government—the Colonial Office and the India Office. The latter is concerned only with India. The possessions in charge of the Colonial Office are divided into two groups according to their political status. In one group are the Dominions or the larger Colonies with self-governing powers. In the second group are the Crown Colonies and the protectorates.

The fiscal policy of the Crown Colonies and the protectorates has been similar to that of India. It is the British Parliament as the interpreter of the British constitution and as the guardian of British commercial policy that determines the fiscal arrangement of the Crown Colonies and the protectorates The legislatures of the Crown Colonies cannot impose tariffs which go against the Free Trade policy of the United Kingdom. Since 1846, measures for the protection of local industries in the Crown Colonies have been impossible.

We are however, concerned here with the fiscal policy of the Dominions, or of the larger oversea possessions of Great Britain with self-governing powers.

Bounty legislation in New Brunswick.

The first interference from the Colonial Office in Colonial fiscal legislation came in 1848. In that year the

Legislature of New Brunswick passed an Act for the grant of bounties to encourage the cultivation of hemp. This Act received condemnation from the Colonial Secretary, who instructed the Lieutenant-Governor not to give his assent to such Acts in future in the following terms:—"The act No. 1755, which grants a bounty on the cultivation of hemp is so objectionable in principle that it is only in consideration of its limited duration and from a desire to obviate the loss and inconvenience which its disallowance would occasion to those who may have already embarked their property in the cultivation of hemp on the promise of such bounties, that her Majesty's government have felt themselves justified in advising the Queen to leave this act in operation. Experience has so fully demonstrated the impolicy of artificially directing capital and industry into channels which they would not naturally follow, that I must request that you will withhold your assent from any law which may hereafter be passed by the provincial legislature involving a principle of this objectionable and impolitic nature".

Canada adopts protection.

The year 1858 is a landmark in the fiscal history of the Dominions It was in this year that we have the first protective tariff in any part of the Empire after the adoption of Free Trade by England. The Canadian Legislature imposed at this time a tariff, which being protective was against the fiscal policy of Great Britain, was against the manufacturing interests of England and was against the Colonial Office propaganda for Free Trade within Empire. Curiously however, this tariff known as the Cayley tariff (Cayley was the Finance Minister) did not attract notice.

The next year, 1859, the Canadian Legislature enacted a still higher protective tariff, known as the Galt tariff (Galt was the Finance Minister). Among the statesmen and politicians at Westminster, and among the commercial and

manufacturing classes of the United Kingdom, this measure created great surprise and alarm. It was not in the power of the Governor of Canada to assent to this measure in the name of the Crown, because it went against his instructions. It was treated as a reserved bill and sent to the Secretary of State for the Colonies. By this time however, responsible government was firmly established not only in Canada, but also in the Australian Colonies Circumstances were against the Colonial Office propaganda. It was no longer possible to control legislation of any kind in the self-governing colonies from Downing Street. The result was that the Galt tariff was accepted reluctantly and grudgingly.

The importance of this tariff in the history of Dominion Fiscal Policy is so great, that it is both interesting and useful to refer to the original correspondence on the subject. In August 1859, the Chamber of Commerce and manufacturers of Sheffield addressed a memorial to the Colonial Secretary, the Duke of Newcastle, in which they said —" For proof that we are not mistaken about what the policy of the Canadian government is, we would refer your Grace to the tone of the whole press of Canada, to the speeches of members of the Canadian Parliament on both sides of the House, and especially to the steady increase of duties levied on Sheffield goods under every successive tariff. It will be sufficient to say on this last point that within eighteen years or less the duty levied on Sheffield goods has been steadily advanced from two and a half per cent. to twenty per cent.

" The merchants and manufacturers of Sheffield have no wish to obtain special exemption for themselves, and do not complain that they are called upon to pay the same duty as the American or the German. Neither do they claim to have their goods admitted free of duty. All they ask is that the policy of protection to native manufacturers in Canada should be distinctly discountenanced by

her Majesty's government as a system condemned by reason and experience, directly contrary to the policy solemnly adopted by the mother country, and calculated to breed disunion and distrust between Great Britain and her colonies. It cannot be regarded as less than indecent and a reproach that, while for fifteen years the government, the greatest statesmen, and the press of this country have been not only advocating but practising the principles of free trade, the government of one of her Majesty's most important colonies should have been advocating monopoly and protection. Under the stimulus of this system, extensive and numerous hardware manufactories have sprung up in Canada both east and west, and the adoption of increasing duties has been the signal for more to be commenced."

In forwarding this memorial to the Governor-General of Canada, the Colonial Secretary wrote thus.—"I request that you will place this representation in the hands of your Executive Council, and observe to that body that I cannot but feel there is much force in the argument of the Sheffield manufacturers Practically this heavy duty operates differentially in favour of the United States, in consequence of the facility for smuggling, which so long a line of frontier affords, and the temptation to embark in it which a duty of twenty per cent. offers. Regarded as a fiscal expedient the measure is impolitic, for whilst any increase of contraband trade must be at the expense of the Exchequer, the diminution of foreign importations will probably more than neutralize the additional revenue derived from the higher duty.

"Whenever the authenticated act of the Canadian Parliament on the subject arrives, I may probably feel that I can take no other course than signify to you the Queen's assent to it, notwithstanding the objections raised against the law in this country. But I consider it

my duty, no less to the colony than to the mother country, to express my regret that the experience of England, which has fully proved the injurious effect of the protective system and the advantage of low duties upon manufactures, both as regards trade and revenue, should be lost sight of, and that such an act as the present should have been passed. I much fear the effect of the law will be that the greater part of the new duty will be paid to the Canadian producers by the colonial consumer, whose interests, as it seems to me, have not been sufficiently considered on this occasion."

The Canadian Finance Minister, Galt, sent a lengthy and spirited reply, from which the following passages may be studied with advantage. "It is to be deeply regretted that his Grace should have given to so great a degree the weight of his sanction to the statements in the Memorial, without having previously afforded to the Government of Canada the opportunity of explaining the fiscal policy of the province and the grounds upon which it rests. The representations upon which his Grace appears to have formed his opinions are those of a provincial town in England, professedly actuated by selfish motives, and it may fairly be claimed for Canada, that the deliberate acts of its Legislature, representing nearly three millions of people, should not have been condemned by the Imperial Government on such authority, until the fullest oppotunity of explanation had been afforded It is believed that nothing in the Legislation of Canada warrants the expressions of disapproval which are contained in the dispatch of his Grace, but that on the contrary due regard has been had to the welfare and prosperity of Her Majesty's Canadian subjects.

"From expressions used by his Grace in reference to the sanction of the Provincial Customs Act, it would appear that he had even entertained the suggestion of its

disallowance; and though, happily, Her Majesty has not been so advised, yet the question having been thus raised, and the consequences of such a step, if ever adopted, being of the most serious character, it becomes the duty of the Provincial Government distinctly to state what they consider to be the position and rights of the Canadian Legislature.

"Respect to the Imperial Government must always dictate the desire to satisfy them that the policy of this country is neither hastily nor unwisely formed; and that due regard is had to the interests of the Mother Country as well as of the Province But the Government of Canada acting for its Legislature and people cannot, through those feelings of deference which they owe to the Imperial authorities, in any manner waive or diminish the right of the people of Canada to decide for themselves both as to the mode and extent to which taxation shall be imposed. The Provincial Ministry are at all times ready to afford explanations in regard to the act of the Legislature to which they are party; but subject to their duty and allegiance to Her Majesty, their responsibility in all general questions of policy must be to the Provincial Parliament, by whose confidence they administer the affairs of the country, and in the imposition of taxation it is so plainly necessary that the Administration and the people should be in accord, that the former cannot admit responsibility or require approval beyond that of the local Legislature. Self-government would be utterly annihilated if the views of the Imperial Government were to be preferred to those of the people of Canada. It is, therefore, the duty of the present Government distinctly to affirm the right of the Canadian Legislature to adjust the taxation of the people in the way they deem best, even if it should unfortunately happen to meet the disapproval of the Imperial Ministry. Her Majesty cannot be advised

to disallow such acts, unless her advisers are prepared to assume the administration of the affairs of the Colony irrespective of the views of its inhabitants.

"The Imperial Government are not responsible for the debts and engagements of Canada. They do not maintain its judicial, educational, or civil service; they contribute nothing to the internal government of the country, and the Provincial Legislature, acting through a Ministry directly responsible to it, has to make provision for all these wants, they must necessarily claim and exercise the widest latitude as to the nature and extent of the burthens to be placed upon the industry of the people. The Provincial Government believes that his Grace must share their own convictions on this important subject; but as serious evil would have resulted had his Grace taken a different course, it is wiser to prevent future complication by distinctly stating the position that must be maintained by every Canadian Administration.

"The fiscal policy of Canada has invariably been governed by considerations of the amount of revenue required. It is no doubt true that a large and influential party exists which advocates a protective policy. But this policy has not been adopted by either the government or legislature, although the necessity for increased taxation, for the purposes of revenue, has to a certain extent compelled action in partial unison with their views and has caused more attention to be given to the proper adjustment of the duties, so as neither unduly to stimulate nor depress the few branches of manufacture which exist in Canada.

"The increase of taxation is never a popular step; and his Grace might have well believed that no government would adopt it without the strongest conviction that good faith demanded it. It is unpleasant enough to be exposed to attack in Canada for an unavoidable increase of duties.

But it is certainly ungenerous to be reproached by England, when the obligations which have caused the bulk of the indebtedness of Canada have been incurred either in compliance with the former policy of Great Britain, or more recently assumed to protect from loss those parties in England who had invested their means in our railway and municipal bonds."

The Galt tariff, which as we have seen above was grudgingly accepted, formed an epoch-making precedent for all the other self-governing colonies of Great Britain. One part of the Colonial Office propaganda for uniform fiscal legislation in the Empire came to an end. It was no longer possible to object to Colonial bills intended for the protection of Colonial industries.

Australian struggles for Fiscal Freedom.

The Australian Constitution Act of 1850 was framed at a time when the Colonial Office propaganda for uniform tariff based on free trade all over the Empire was carried on very vigorously, and when the Colonial Office was in charge of one (Grey) who doubted whether the connection with the Colonies should be maintained, if the British Government had no voice in determining their commercial measures. Section 31 of this Act was framed with this view. The effect of this section was to prevent the Australian Colonies from enacting tariffs in which there were differential duties, though in practice they were free to impose protective tariffs equally applicable to all countries similar to the Galt tariff of 1859 in Canada.

In the Imperial Act of 1852 for New Zealand, a similar section was not introduced. But in practice the Australian Act prevented New Zealand from imposing differential duties for reciprocal trade agreements with any of the Australian Colonies.

From 1850 to 1873 the Australian Colonies groaned under this restriction. We need not enter into the details of the Australian agitation for the removal of these restrictions on the one hand, and of the persistent efforts made by the Colonial Office to withhold the concession as long as possible, on the other.

It must be noted at this stage that when the struggle of the Australian Colonies over the question of differential duties became acute during the years 1867-73, all the Colonies in the North American group, the Colonies in the Australian group and the Cape Colony—had all responsible government and were very near the present status of nation within the Empire The victory of the Australian Colonies in 1873 was due to this one fact which was acknowledged by the Colonial Secretary in the House of Lords that the principle of self-government was more important than that of free trade.

The following extracts from the original correspondence on the subject will reveal for themselves the nature of the controversy in its final stages. With reference to the demand of the Australian Colonies for power to enact tariffs with differential duties, the Colonial Secretary (Lord Kimberley) wrote thus in his despatch of July 1871 :—

"It remains for me, lastly, to ask how far it is expedient, in the interests of each Colony concerned, and of the Empire collectively, that the Imperial Parliament should be invited to legislate in a direction contrary to the established commercial policy of this country ?

"Her Majesty's Government are bound to say that the measure proposed by the Colonial Governments seems to them inconsistent with those principles of free trade which they believe to be alone permanently conducive to commercial prosperity, nor, as far as they are aware, has any attempt been made to show that any great practical

benefit is expected to be derived from reciprocal tariff arrangements between the Australasian Colonies.

"At all events I do not find anywhere among the papers which have reached me those strong representations and illustrations of the utility or necessity of the measure which I think might fairly be expected to be adduced as weighing against its undeniable inconveniences.

"It is, indeed, stated in an address before me that the prohibition of differential customs treatment 'operates to the serious prejudice of the various producing interests of the Australian Colonies' I understand this and similar expressions to mean that it is desired to give a special stimulus or premium to the Colonial producers and manufacturers, and to afford them the same advantages in a neighbouring Colony over the producers and manufacturers of all other parts of the Empire and of foreign countries, as they would have within their own Colony under a system of protective duties What is termed reciprocity is thus, in reality, protection.

"It is, of course, unnecessary for me to observe that, whilst Her Majesty's Government feel bound to take every proper opportunity of urging upon the Colonies, as well as upon foreign Government, the great advantages which they believe to accrue to every country which adopts a policy of free trade, they have relinquished all interference with the imposition by a Colonial Legislature of equal duties upon goods from all places, although those duties may really have the effect of protection to the native producer.

"But a proposition that, in one part of the Empire, commercial privileges should be granted to the inhabitants of certain other parts of the Empire, to the exclusion and prejudice of the rest of Her Majesty's subjects, is an altogether different question, and I would earnestly request

your Government to consider what effect it may have upon the relations between the Colonies and this country.

"Her Majesty's subjects throughout the Empire., and nowhere more than in Australasia, have manifested, on various occasions of late, their strong desire that the connection between the Colonies and this Country should be maintained and strengthened, but it can hardly be doubted that the imposition of differential duties upon British produce and manufactures must have a tendeney to weaken that connection, and to impair the friendly feeling on both sides, which I am confident your Government as much as Her Majesty's Government desire to preserve.

"I have thought it right to state frankly and unreservedly the views of Her Majesty's Government on this subject, in order that the Colonial Governments may be thoroughly aware of the nature and gravity of the points which have to be decided; but I do not wish to be understood to indicate that Her Majesty's Government have, in the present state of their information, come to any absolute conclusion on the questions which I have discussed."

The attitude of the Colonial Governments can be seen from the following extracts from the answers to the Kimberley dispatch by the Government of Tasmania and by the Government of New Zealand.—

(Tasmania) "As far as the colony of Tasmania is concerned, the necessity and utility of the measure are sufficiently obvious. Our customs duties are imposed for revenue purposes only. But when our nearest neighbours practically close against our producers and manufacturers their best and natural market by the comprehensive operation of an intentionally protective tariff, we seek relief in reciprocity conventions, which, while they would extend the basis of commercial operations between us and our neighbours, would in no way prejudice the interests of European producers and European manufacturers in as

much as the desired convention would, for the most part, deal with a limited list of raw materials and produce not imported to these Colonies from Europe".

"Lord Kimberley's treatment of this question indicates throughout a natural anxiety to avoid a decision which might seem to commit Her Majesty's Government to a departure 'from the established commercial policy' of the mother country. But since his lordship assures us that Her Majesty's government have not 'come to any absolute conclusion on the questions which he has discussed', we may venture to hope that a firm but respectful persistence in the course of legislation already adopted by New Zealand, Tasmania, and South Australia, will shortly secure for the Australasian colonies that freedom from imperial restrictions on their fiscal relations with each other which the conciliatory policy of Her Majesty's government has already conceded to the colonies of British North America."

(New Zealand) "In failing to assert the right to control colonial tariffs, Great Britain does not take advantage of her power to consolidate an immense trade, from which she and her dependencies might equally benefit. But it must be observed that, if the right were asserted, it would logically follow that the colonies should enjoy some share, either by representation or consultation, in deciding the policy by which they would be affected. Lord Kimberley writes 'Her Majesty's government are alone responsible for the due observance of treaty arrangements between foreign countries and the whole Empire; and it would scarcely be possible for the colonial governments to foresee the extent to which the trade of other parts of the Empire might be affected by special tariff arrangements between particular colonies.' The remark as to the trade of other parts of the Empire might be applied with as much cogency to the actual tariffs fixed by the colonies as to the

special arrangements entered into between them. Lord Kimberley, recognising the difficulty which Great Britain would have in dealing with the matter, points to want of local knowledge which her Majesty's government would labour under. The same want of information would equally affect the ability to decide the colonial tariffs, unless, in either case there was available the assistance of colonial representatives. In short, Great Britain must logically do one of two things—either leave the colonies unfettered discretion, or—if she is to regulate tariffs or reciprocal tariff arrangements, or to make treaties affecting the colonies—give to the colonies representation in matters affecting the Empire In other words, she must apply in some shape to the Empire that federation which as between the colonies themselves Her Majesty's ministers constantly recommend. To urge the right of Great Britain to regulate these matters under present circumstances, is to urge that the interests of the colonies should be dealt with in the asbence of the requisite knowledge of their wants and requirements "

The concluding paragraphs of Lord Kimberley's second dispatch in answer to these communications were as under —

" Her Majesty's Government believe that protectionist tariffs and differential duties will do far more to weaken the connexion between the Mother Country and her Colonies than any expressions of opinion in favour of a severance, such as are alluded to in the resolutions of the delegates from three of the Australian Colonies.

" Whilst, however, Her Majesty's Government deeply regret that any of the Australasian Colonies should be disposed to recur to what they believe to be the mistaken policy of protection, they fully recognise, so far as the action of the Imperial Government is concerned, the force of the observations made by the Chief Secretary of Victoria

in his memorandum of October 7th, 1871, 'that no attempt can be more hopeless than to induce free self-governep states to adopt exactly the same opinions on such questions as free trade and protection which the people of England happen to enterain at that precise moment'· and they are well aware, to use again Mr. Duffy's words, 'that the Colonists are naturally impatient of being treated as persons who cannot be entrusted to regulate their own affairs at their own discretion.'

"Similarly, Mr. Wilson, Chief Minister of the Tasmanian Government, in his Memorandum of September 11th, 1871, observes that 'it is only on an abstract theory of the superior advantages of a free-trade policy, that the Secretary of State objects to a proposal which seems to sanction protection, under the name of reciprocity. 'These are views,' he goes on to state, 'which can find no acceptance with Colonial Legislatures, under a system of Constitutional Government'. It is obvious that a prolonged controversy on a subject on which the opinions entertained on either side are, unfortunately, so entirely at variance, would not tend to promote the principles of free trade, opposition to which would become identified in the minds of the Colonists with the assertion of their rights of self-government, and that it could scarcely fail to impair those relations of cordial and intimate friendship, which both the Imperial and the Colonial Governments are equally desirous to maintain.

"But although for these reasons Her Majesty's Government might not feel justified in refusing to allow the Colonists to adopt the policy which they think best for their own interests, they desire to point out that, in order to meet the views of the Colonial Governments as expressed in the papers now before me, it would be necessary not only to repeal so much of the Australian Colonies Government Act, 13 & 14 Vict. c. 59, as prevents the imposition of differential duties, but to exempt the Colonies in

question from the operation of any future commercial treaties which may be concluded by this country, containing stipulations against such duties, leaving them at liberty, subject to the obligations of existing treaties, to make such arrangements as they may think fit, for reciprocity with each other, or with foreign nations; and before so serious a step is taken, they would ask the Colonists gravely to consider the probable effects of a measure which might tend materially to affect the relations of the Colonies to this country and to the rest of the Empire. In the meantime they have thought it right not to proceed in this matter until the Australasian Governments concerned have had an opportunity of communicating any further observations which they may desire to make in explanation of their views."

In due course the Australian Act was amended in 1873. The amendment gave power to the Australian Colonies to make reciprocal trade agreements with each other and with New Zealand. It did not give them power to make such agreements with other colonies or with foreign countries. The Australian Colonies had to wait for 22 years more when in 1895 the restrictive clause was finally repealed by an Act of the Imperial Parliament. This was due to the Colonial Conference of 1894, which had passed a resolution to the effect that all legal restrictions on inter-colonial preference should be removed

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SECTION 3.

COLONIES AND COMMERCIAL TREATIES.

Diplomatic freedom of the Colonies in Commercial Treaties.

Soon after the adoption of Free Trade by England the movement for a reciprocity agreement with the United States of America began in Canada. This involved

differential duties in favour of the United States and against the United Kingdom. As may be expected the movement met with great opposition from the Colonial Office. The agitation in Canada for a reciprocity treaty however, succeeded, and the British Government at last gave its assent to what is known as the Elgin-Marcy treaty, which established Free Trade between Canada and the United States in certain specified articles. This treaty was made in 1854 and continued till 1866.

During the negotiations that led to this treaty, it was urged that because Canada was directly interested in these negotiations, she should be directly represented in carrying them out. Fortunately, the head of the British Mission in Washington at this time (Crompton), who carried on the negotiations was well disposed towards the colonial desire for greater diplomatic freedom, and one of the Canadian Ministers (Merritt) was closely associated with him, though unofficially, in carrying out these negotiations.

In the meanwhile, a claim for direct representation in commercial treaties was made by New Brunswick in 1850 in the form of a resolution. The preamble to this resolution reads thus :—"Whereas the mother country has adopted a principle of trade, admitted by the Prime Minister of England (Lord John Russell) and proved by bitter experience to be calculated to create wellfounded discontent, and to be painful to the colonists, but from which decision it is by the same authority asserted that the mother country ought not in any respect to attempt to go back; and whereas the same high authority enunciates the doctrine that the mother country should trade with her colonies on the principle that she was to obtain articles from other countries which may be produced there better or cheaper than in the colonies, and at the same time states that the colonies should be at liberty to trade

with all parts of the world in the manner which might seem to them most advantageous; and whereas the dispatches of the present Colonial Minister are not only at variance, but entirely hostile to any such liberty ...."

The resolution to which the above was a preamble ended thus:—"Resolved that the withdrawal of all protection by the mother country, and the placing of the trade and productions of the colonies on the same footing as that of foreign nations in the British markets is disastrous and utterly ruinous to this province as a colony, unless full power is conceded to treat with foreign nations on all subjects of trade and shipping, and without which the assertion that the colonies should be at liberty to trade with all parts of the world in the manner which might seem to them most advantageous is a mockery and a delusion."

For 15 years after the passing of this Resolution, Canadian representatives were frequently in Washington in the interest of reciprocity. Galt, the author of the famous tariff of 1859, was in Washington for a similar purpose in 1861. After this however, in spite of the wishes of the authorities at Washington, Canadian representatives hesitated to go there, because of the attitude of the British minister at Washington, Lord Lyons, who was against giving any such freedom to the colonies

The Elgin-Marcy treaty was denounced by the United States Government in 1865 and the whole of British North America was faced with dislocation of trade. Out of this, important developments took place giving to the colonies a better status in negotiating commercial treaties. On the suggestion of the Colonial Office, an inter-provincial Council to formulate the views of the colonies on the negotiation of commercial treaties was convened at Quebec. Lower and Upper Canada, Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland were represented

on this Council. The resolutions of this Council may be divided into two parts. One part asked for immediate negotiations for a renewal of the reciprocity treaty with the United States. The other pointed out the importance of reciprocal trade between the British North American provinces on the one hand, and (1) the British West India Islands, (2) the American colonies of Spain, (3) Brazil, and (4) Mexico on the other. In either case direct representation of the colonies was asked for.

Accordingly, Galt and three other delegates went to Washington in 1866 for a second reciprocity agreement. The British Minister in Washington at this time (Bruce) had no objection to diplomatic association with colonial representatives. On account of excessive demands on the part of America, the negotiations failed. The commercial object of the colonies was not achieved. But they had made a political and diplomatic advance. They had secured direct representation in future negotiations for commercial treaties in which they were directly concerned.

With regard to the second resolution of the Quebec Council, it was agreed that a colonial mission should proceed to the countries with which reciprocal trade was desired and confer with the British Minister in each of such foreign countries as to the possibility of trade agreements with them Such a mission was sent, but no agreements were found practicable. With the formation of the confederation of the Britsh North American provinces in 1867, the inter-provincial council came to an end. It was due to this Council that the concession for direct representation in making treaties was given to the colonies. In 1871, the Canadian Premier, Macdonald was associated with the British minister at Washington for another reciprocity treaty and in 1879 Galt was associated with the British Minister at Madrid for a similar treaty with Spain.

But the statesmen of the Dominion of Canada were not satisfied with a mere association with British Minister in treaty negotiations. They claimed equal power and status with British Ministers in such negotiations. The claim was pressed on the spot by Galt and Sir Charles Tupper who successively held the office of High Commissioner for Canda in London—an office created in 1880.

The claim was granted in 1884, when negotiations with Spain for a reciprocity treaty were re-opened. Tupper, then High Commissioner of the Dominion of Canada in London was given co-ordinate power with the British Minister at Madrid Here again the negotiations failed, but the diplomatic status of the Dominion increased. Similarly in 1888 in negotiating a treaty for settling fisheries and boundary disputes with the United States, Tupper, as representating the Dominion had equal powers with Chamberlin and Sackville-West, the British delegates

These negotiatios also failed, but because the question was exclusively Canadian, Tupper had the largest share in carrying them out.

The first comercial treaty with a foreign country made by a Dominion was the Franco-Canadian treaty of 1893. On this occasion also Tupper who had equal powers with Dufferin, then British Ambassador in Paris, was the chief actor in the negotiations.

Against this growing power of the Dominion, there was a reaction in the shape of a reactionary dispatch from the Colonial office in 1895. At the Colonial Conference of 1894, held at Ottawa, the treaty-making powers of the colonies was discussed A statement of the policy of the British Government in this connection became necessary, which resulted in a dispatch referred to above, issued by the Marquiss of Ripon, then Colonial Secretary. The

effect of this dispatch would have been to reduce the diplomatic status of the colonies in commercial negotiations. The Colonial representative was to hold a position subordinate to the British Ambassador—a position against which Galt and Tupper had successfully fought.

But the instructions contained in this dispatch remained only on paper. A Joint High Commision representing Great Britain, Canada and the United States was set up in 1898 to settle certain questions between the United States and Canada, with a veiw ultimately to arrange a reciprocity treaty. The questions at issue were Canadian, and the status of the Canadian representatives on the Commisson was not inferior to that of the British representatives.

The last and most important event in the history of the Deplomatic freedom of the colonies took place in 1907 In this year, Sir Wilfrid Laurier, the Premier of the Dominion of Canada with two other ministers was in France to negotiate a second reciprocity treaty with that country. The foreign Secretary, Sir Edward Grey, (now Viscount Grey) instructed the British Ambassador in Paris that the negotiations were to be left entirely to the Canadian ministers, along with whom he was to sign the agreement jointly. The position of the British Ambassador was thus made formal. The important stages in the negotiations were left to the Canadian ministers, because it was a question between Canada and France. It may be noted that by an order in Council, the Canadian ministers were appointed British plenipotentiaries for the purposes of this treaty.

This event marks a distinct stage in the constitutional, fiscal and diplomatic status of the dominions. The dominions became acknowledged as nations within the Empire for the purposes of international relations.

The diplomatic freedom thus achieved by Canada has resulted in an event of still greater importance in recent

times, viz., the appointment of a Dominion Minister with ambassadorial powers at Washington. Before explaining the details of this change, it is necessary to refer to the increased political status of the dominions on account of the war. The Imperial War Cabinet, for example, consisted of the Prime Minister of England and certain of his colleagues and of the Prime Ministers of the Dominions or their representatives. In addition to this, the dominions have been given a definite status in International affairs by making them signatories to the Peace of Versailles and by admitting them as members of the League of Nations.

It followed as a corrollary from this that the dominions had the right to a separate representation not only in international conferences, but also in foreign Capitals. Canada put this interpretation on the new situation and pressed the Imperial Government for a direct diplomatic representation of the Dominions in the United States. The many difficulties which such a step would involve, are obvious. However a new arrangement of great interest and importance has been made This was explained by Mr. Bonar Law in the House of Commons on May 10th 1920 in these words :—

" As a result of recent discussions an arrangement has been concluded between the British and Canadian Governments to provide more complete representation at Washington of Canadian interests than has hitherto existed. Accordingly it has been agreed that His Majesty, on the advice of his Canadian Ministers, shall appoint a minister Plenipotentiary, who will have charge of Canadian affairs and will at all times be the ordinary channel of communication with the United States Government in matters of purely Canadian concern, acting upon instructions from and reporting direct to the Canadian Government. In the absence of the Amdassador the Canadian Minister will take charge of the whole Embassy

and of representation of Imperial, as well as Canadian interests. He will be accredited by His Majesty to the President with necessary powers for the purpose."

In explaining this measure, Mr. Bonar Law said:— "This new arrangement will not denote any departure, either on the part of the British Government or of the Canadian Government, from the principle of diplomatic unity of the British Empire. Need for this important step has been fully realised by both Governments for some time. For a good many years there has been direct communication between Washington and Ottawa, but the constantly increasing importance of Canadian interests in the United States has made it apparent that Canada should be represented there in some distinctive manner, for this would doubtless tend to expedite negotiations, and naturally first-hand acquaintance with Canadian conditions would promote good understanding. In view of the peculiarly close relations that have always existed between the people of Canada and those of the United States it is confidently expected as well that this new step will have the very desirable result of maintaining and strengthening friendly relations and co-operation between the British Empire and the United States."

As may be naturally expected Australia and South Africa have asked for similar powers. The question will probably be discussed in future Imperial Conferences

The binding nature of British Commercial Treaties.

We have seen the position of the Dominions in the case of those commercial treaties in which they are directly concerned. For a long time, however, their fiscal independence was greatly curtailed by the operation of Commercial Treaties which England entered into with other countries. The practice was to make British Commercial Treaties binding on the Dominions. For example,

he treaty with Belgium in 1862, and with the German Zollverein in 1865, restricted Colonial freedom in fiscal matters to a great extent. Clause VII of the German reaty ran thus —

"The stipulations of the preceding Articles shall also be applied to the Colonies and foreign possessions of Her Brittanic Majesty.

"In those Colonies and Possessions the produce of he States of the Zollverein shall not be subject to any nigher or other import duties than the produce of the United Kingdom of Great Britain and Ireland, or of any other country of the like kind, nor shall the exportation from those Colonies or Possessions to the Zollverein be subject to any other or higher duties than the exportation from the United Kingdom of Great Britain and Ireland."

Treaties made before this, *e g*, the treaty with Norway and Sweden of 1826, with Switzerland of 1855, with Russia of 1859, with Bolivia of 1840, with the Argentine Confederation of 1825, etc, as well as treaties made after this *e g*, the treaties of 1868 and 1876 with Austria-Hungary, —all applied to the Colonies.

In 1877 the question was raised whether it was proper to enter into such treaties. It was agreed that in future, commercial treaties should not be made binding on those Colonies, which had responsible government. They were free to declare their willingness to join such a treaty within a period of two years. This was followed in connection with future treaties, but treaties already in force were not affected by this rule.

Canada greatly resented the restrictions placed upon the development of colonial policy by the operation of the German and Belgian treaties. In 1866, Canada suffered in the United States market by the denunciation in that year of the Elgin-Marcy treaty. From this time, the provinces of Canada determined to adopt a "national"

policy for their commercial and political development. It was out of this movement that the Confederation of 1867 was formed. The Canadian commercial policy was so arranged as to force Canadian trade with the mother country as much as possible. The "national" policy of Canada, however, was hampered by British commercial treaties, against which frequent representations were made without effect. In 1891, the Canadian Legislature passed an Address to the Queen, praying for the denunciation of the restrictive clauses in the Belgian and German treaties. In reply to this the Colonial Secretary said that "in order to confer upon the Dominion complete freedom in its negotiations with foreign powers, it would be necessary to revise very extensively the existing commercial treaties of the British Empire and a great break-up of existing commercial relations of which Canada now enjoys the benefits, is involved in the suggestion".

By this time the movement for a system of Preferential Trade was slowly gaining ground. The colonies, however, could not give a preferential treatment to British goods without extending the same treatment to goods from other countries with which Britain had commercial treaties. The Colonial Conference of 1894 unanimously resolved in favour of the removal of treaty obstacles to Colonial preferential arrangements with the United Kingdom.

In 1897, the Canadian Government, adopted the Reciprocal Tariff which conceded reduced rates to countries, which gave favourable terms to Canada. As advised by the Law Officers of the Crown, the treaties with Gernany and Belgium made it necessary for Canada to extend these reduced rates to Belgium, Germany and other countries in addition to the United Kingdom. In the third Colonial Conference held in the same year, unanimous resolutions were passed in favour of early denunciation of treaties which hampered commercial relations between Great

Britain and her colonies. If this was done, a hope was held out that the colonies would give a larger preference to products from the United Kingdom.

Joseph Chamberlain was the Colonial Secretary at this time with Lord Salisbury as the Prime Minister. The continued appeals of the colonies met with a response at the hands of Chamberlain, at whose instance Lord Salisbury gave the necessary 12 months' notice to terminate the German and Belgium treaties. This was immediately followed by the adoption by Canada of a British Preferential Tariff. The preference given by this Tariff was increased to 25 per cent. and was limited to the United Kingdom and to those colonies which gave reciprocal terms.

SECTION 4.

IMPERIAL PREFERENCE[1].

Colonial Preference.

In the successive Colonial Conferences, beginning from 1887, and elsewhere the desire to have a system of Preferential Trade between the different members of the Empire found frequent expression Without going into the details of the earlier proposals, we may say that the fundamental idea underlying them was to create some consolidating force in addition to mere sentiment—the force of self-interest or of economic interdependence among the members of the Empire. The great imperialist, Joseph Chamberlain was actuated by the same motives. Imperial defence was largely a matter of ways and means; and the ways and means were largely dependent upon the fiscal

1. I am indebted to the Editor, Bombay Chronicle, for permission to make use of my articles on Imperial Preference contributed to the Chronicle in February and March 1922 in this and subsequent sections of this part

and other commercial arrangements of the Empire. His conclusion was "that if the people of this country and the people of the Colonies mean what they have been saying, and if they intend to approach the question of Imperial unity in a practical spirit, they must approach it on its commercial side."

Commercial Treaties.

We have seen in another connection, how in their early efforts to adopt a system of Preferential Trade, the Colonies found obstacles in the existing commercial treaties between the British Government and other countries, chiefly Belgium and the German Empire. We have noted how after persistent agitation these treaties were terminated in 1898, at the instance of Chamberlain. In view of the resolution passed by the Colonial Conference of 1894 regarding Preferential Trade, we find some definite steps being taken in this direction. In 1895, New Zealand entered into reciprocal agreements with South Australia and Canada. We have already seen that in 1897, Canada adopted the Reciprocal Tariff and that after the termination of the treaties with Belgium and Germany, she increased the preference to British goods to 25 per cent (1898). The other colonies could get this advantage if they gave reciprocal terms.

The Colonial Conference, 1902.

In his opening speech as President of this Conference, Mr. Chamberlain outlined his ideas about the Commercial Relations of the Empire. The resources of the Empire were sufficient to make it self-supporting, inter-imperial trade could therefore easily take the place of the existing foreign trade, Free Trade within the Empire was the object, but such Free Trade did not mean that the Colonies should give up their indirect taxation, Customs duties for revenue purposes were quite consistent with the principles of Free Trade, if such Imperial Free Trade were

established, on the one hand the development of the Colonies would be hastened, on the other the United Kingdom could be made independent of foreign food and raw materials. Mr. Chamberlain, however, admitted that the point of view of the Colonies was different. They had accepted the idea of giving preferential treatment to British goods, without asking for Reciprocity. But he complained that what was done in this connection had not produced adequate results. The Canadian Preference had at most arrested the positive decline of British imports into Canada He pointed out that this was due to the fact that the preference had not weakened the force of Protection in Canada against English goods. The words of Chamberlain in this connection are of importance to us in India to-day. He said:—"So long as a preferential tariff, even a munificent preference, is sufficiently protective to exclude us altogether, or nearly so, from your markets, it is no satisfaction to us that you have imposed even greater disability upon the same goods if they came from foreign markets, especially if the articles in which the foreigners are interested come in under more favourable conditions."

In the published report of the Conference we do not find whether the question of Free Trade within the Empire was at all discussed. But the Colonial Premiers did reveal a strong desire to establish some form of closer commercial relations. In the resolutions which they adopted on this point, they accepted the principle of Preferential Trade, declared Free Trade within the Empire impractible; asked the colonies which had not adopted the Preferential Policy to do so, and requested the United Kingdom to grant Reciprocity, and further the Premiers laid down the details which they would try to work out in their respective colonies.

The Canadian Offer.

The advantages to British goods by the Canadian preference were disputed by the British Government.

Only if Canada gave material tariff concessions in addition to those already given, the United Kingdom might consider a departure from their established fiscal policy. Though the allegation of the British Government was not accepted by the Canadian ministers, they made a bold offer in the following terms:—

"That if they could be assured that the Imperial Government would accept the principle of preferential trade generally and particularly grant to the food products of Canada in the United Kingdom exemption from duties now levied or hereafter imposed, they, the Canadian Ministers, would be prepared to go further into the subject, and endeavour to give to the British manufacturer some increased advantage over his foreign competitors in the markets of Canada."

The Canadian offer was not only rejected, but a further action in the opposite direction was taken. The recently imposed (1902) duty on corn and flour could have been utilised for giving preference to the colonies. Instead of making use of this duty for the purpose of Imperial Union, it was resolved to do away with it altogether. This decision has been described "as an almost incredible feat of fiscal bigotry", on the part of the British Government.

Preference in the Colonies.

In face of such an attitude on the part of England it would not have been surprising if the colonies had refused to carry into effect the resolution of 1902. Convinced, however, that this was the key for the consolidation of the Empire, as well as for the extension of their markets, they pursued the policy which they had themselves laid down. In 1903, New Zealand and the South American Customs Union began by giving preference to Britain. In 1906, the latter entered into reciprocal arrangements with New

Zealand and Australia. The question of enacting a preferential tariff in Australia was delayed up to 1907 because the Labour party insisted that the preference should be restricted to goods carried in British ships manned by white labour. Canada could not evidently extend her existing preference, because the price asked for it was not forthcoming. With a view to seek fresh markets Canada came under the Anglo-Japanese treaty (1894) in 1906. As a price for the easier entry of Canadian goods in Japanese markets, Canada accepted the right of Japanese subjects to enter and reside in Canada. Another important step was taken by Canada in the same year. She had so far two tariff columns—the "general" and the "preferential"; she now instituted a third—the "intermediate". This new column contained rates midway between those of the general and the proportional columns. Those foreign countries which gave Canada equally favourable treatment were to enjoy this "Intermediate tariff." In practice, while negotiating treaties with foreign countries Canada gave concessions greater than those indicated by the "Intermediate tariff". The effect of this action was to reduce the margin of preference given to British goods.

Preference and British Politics.

We have seen the gradual adoption of a system of Preference in the different colonies. With the established facts and results of the existing Preferential systems before them the colonies were to offer one after another an extension of the system in the Conference of 1907, only if England was willing to reciprocate. Unfortunately for the colonies, their determined efforts were doomed to failure, because by this time the question of Imperial Preference had become a party question in England, and the party against it was in power. The Liberals with Sir Henry Campbell-Bannermann as the Premier were definitely committed to the policy of Free Trade. The smallest

departure from the existing fiscal policy of the United Kingdom was not to be countenanced. On this they were returned to power. Any concession to advocates of Imperial Preference would lead to further concessions and the "cry" on which they were brought to office would be discredited.

It may be of interest at this date, to recall the prominent persons who constituted the Liberal Ministry in 1907, and who true to their superstitious Fetish of Free Trade were proud to boast in the words of one of their members (Churchill) that they had "banged, barred and bolted", the door of Imperial Reciprocity and that they "would not concede one inch, they would not give one farthing preference on a single peppercorn." The former Viceroy of India, Lord Elgin, was Secretary of State for the Colonies, and as such presided over the conference of 1907. Asquith and Lloyd George were members of the Cabinet, the former was Chancellor of the Exchequer, the latter was President of the Board of Trade. Both of them took a prominent part in the discussion on Preferential Trade in 1907. The Secretary or State for India was Mr. Morley (now Lord Morley).

Though this is not the place to refer to the position of India with regard to this question it may be noted here that the same Free Trade Fetish was to determine the answer on behalf of India to the colonial demand for Imperial Preference. Irrespective of any consideration whether Imperial Preference was a good thing for India or not, the Free Trade Rulers of India had to give the same answer that was given by the English Government from whom they derived their inspiration.

The Importance of the Colonial Conference, 1907.

This Conference is important in several respects. It determined the constitution of future conferences which were

to be henceforward called Imperial Conferences. India had no place in this constitution, as it was confined to the self-governing states of the Empire. The Crown Colonies and dependencies remained under the suzeraınty of the English Government for the purposes of the Conference.

For our present purpose, the Conference of 1907 was important because of the discussion on Preferential Trade, which formed an essential part of the proceedings. On the one hand the speech of the Colonial ministers who advocated on extension of the system create a great impression, on the other hand the speeches of the English ministers who opposed the system show the extent to which momentous issues are sacrificed to party considerations in England The Australian Premier was constrained to make the following remark during the discussion :—"Is our party system to destroy everything except itself? Are we to put aside great projects because they are debatable, or close the Empire to avoid friction in the House of Commons?"

From the strictly Indian point of view, this Conference is also important. This was the first Conference in which the position of India in a scheme of Imperial Preference was discussed. The Indian brief was entrusted to Sir James Mackay (now Lord Inchcape) who represented the India Office in the Conference.

It is difficult even to give a summary idea of the voluminous literature published in connection with this Conference. The curious reader is referred to two large Parliamentary Blue Books, cd. 3,523 and cd. 3,524 of 1907.

Imperial Preference and National Autonomy.

The most exhaustive and convincing speech was that of Mr. Deakin, the Australian Premier. It had often been represented in England that the adoption of Imperial Preference would mean the loss of liberty to shape English Fiscal Policy in England's own interest and that it would

mean a duty on food and raw material, which would be injurious to English consumers and English industry. After exploding these fears in detail, Mr. Deakin said:—"It ought to be clearly understood that.....when the outer Dominions suggest a preference they not only believe that you should have the opportunity of profit, but also in considering any proposal for preference to them, the first obligation upon every British Parliament is to consider its own citizens, its own industries, and its own advantage first. So far as you might think right to exclude us and every one else from your own markets in order to maintain, or retain, or extend any kind of production or interest of your own, it would be impossible for us to raise one word of complaint. That is entirely a matter for the discretion of the people and the Parliament of the United Kingdom. May I be forgiven for even mentioning this truism, because it occasionally is inferred that the attitude we adopt is of another character...that we are looking for some sort of eleemosynary aid which is to be given in consideration of our youth and inexperience. We may be youthful, but in this matter we are fairly experienced. In our own Tariffs we distinctly study our own interests, and hold that the same duty rests as seriously upon the Government and representatives of the people of this country as it does upon us. We approach this question of Preference with that preliminary admission, it ought not to be necessary to mention it, that of course our proposal is made, admitting that, first of all, you should consider your own people, and impose whatever duties you think fit in regard to them. Only after that should you undertake to go further and enter upon the question of Preference, when you see it to be to your advantage to do so. I use the word "advantage" in that last connection as going perhaps beyond pounds, shillings, and pence either in the matter of revenue received or preference conceded. If the result of granting a preference is, for instance, to largely build up the

Dominions beyond the seas, it should be remembered that they were, are, and are likely to remain the best customers of this country. Consequently you have a direct trade interest in multiplying their population and increasing their consuming power by means of preferences. The question of preference comes in only after you have considered your own interests, your own social system, your own industrial system, and whatever else you think fit to take into account.

"The Commonwealth postulates your absolute independence in the judgment you are to exercise. We are not pleading for something which is to involve sacrifices, but for a co-operation which is to be mutually beneficial.

"Preference begins as a business operation to be conducted for business ends."

The strength of the British Empire as against foreign countries in case of retaliation was pointed out by Mr. Deakin in the same speech. Detailed consideration was given to the question whether food would become dearer in England if preference were adopted. One after another the Colonial statesmen speaking with the advantage of practical and extensive experience of the system of Imperial Preference made convincing statements that food need not become dear, if England joined a scheme of Imperial Preference.

The Colonial demand for Reciprocity.

We have seen how in 1902, Canada offered to extend her preference for British goods if England undertook to give some concessions in return. Similar offers were now made by the other Dominions as is evident from the following extracts :—

On behalf of Australia, Mr. Deakin said, "The larger trade exchange with the Mother Country towards which

we look, ample in its proportions and immense in its possibilities, will be constantly before us, but the extent to which we can approach a complete mutual exchange will, of course, be governed by the attitude which is adopted here towards our proposals"

On behalf of New Zealand, Sir J. Ward said, "I would like briefly to state what the attitude of New Zealand in connection with preferential trade is. We come here with an honest desire to place our position before the British Government, and the British people through the British Government, in the hope that if they see proper to return the preference which we have already on some articles given we should be only too glad in that respect to extend the system and have them added to on a mutual basis"

On behalf of South Africa, Dr. Jameson said, "I believe the proposition before the Conference is—I know it is the proposition of Canada—that we give, irrespective of the United Kingdom giving anything at all, a certain preference, but when the United Kingdom reciprocates then we are all prepared to come forward and give more."

England's Answer.

The replies of English ministers during the discussion on Preferential Trade showed how rigidly they were wedded either to party considerations or to abstract principles The fears about a possible increase in the price of food and raw material were repeated by Asquith, though they were already exploded by Deakin. The danger of giving up the Doctrines of Free Trade or of breaking their election pledges in that connection influenced more or less each English minister who took part in these proceedings. The request of the colonies fell on deaf years The British Government were short-sighted enough not to accept proposals which alone could establish the tie of economic

interdependence—the necessary instrument of organic unity—between the self-governing members of the Empire.

Trade Resolutions of 1907.

In view of the important discussions relating to questions of trade which took place in the Conference of 1907, it is interesting to refer to the resolutions passed by the Conference in this connection.—

(1) The resolutions[1] of 1902 on Preferential Trade were reaffirmed by all the Dominions The British Government was "unable to give its assent, so far as the United Kingdom was concerned, to a reaffirmation of the resolutions in so far as they imply that it is necessary or expedient to alter the fiscal system of the United Kingdom."

(2) The second resolution was to the effect that "as the British Government, through the South African Customs Union—which comprises Basutoland and the Bechuanaland Protectorate—do at present allow a preference against foreign countries to the United Kingdom, Canada, Australia, New Zealand, and all other British Possessions granting reciprocity, His Majesty's Government should now take into consideration the possibility of granting a like preference to all portions of the Empire on the present dutiable articles in the tariff

(3) The third resolution was meant to confirm the freedom of the Dominions in the matter of treaty relations with other countries. It ran thus:—"That all doubts should be removed as to the right of the self-governing Dependencies to make reciprocal and preferential fiscal agreements with each other and with the United Kingdom, and further, that such right should not be fettered by Imperial treaties or conventions without their concurrence."

1 See pages 39, 40 ante.

(4) The fourth resolution reiterated the fiscal autonomy of the self-governing parts of the Empire in these words :— "That, without prejudice to the Resolutions already accepted or the reservation of His Majesty's Government, this Conference, recognising the importance of promoting greater freedom and fuller development of commercial intercourse within the Empire, believes that these objects may be best secured by leaving to each part of the Empire liberty of action in selecting the most suitable means for attaining them, having regard to its own special conditions and requirements, and that every effort should be made to bring about co-operation in matters of mutual interest".

(5) The resolution of 1902 regarding coasting trade privileges and the laws affecting shipping was reaffirmed, the British Government dissenting. It said :—"That it is desirable that the attention of the Governments of the Colonies and the United Kingdom should be called to the present state of the navigation laws in the Empire, and in other countries, and to the advisability of refusing the privileges of coastwise trade including trade between the Mother Country and its Colonies and Possessions, and between one Colony or Possession and another, to countries in which the corresponding trade is confined to ships of their own nationality and also to the laws affecting shipping, with a view of seeing whether any other steps should be taken to promote Imperial Trade in British vessels."

(6) Willingness was shown to favour British goods and shipping in the Dominions by the following resolution :— "That it is advisable in the interests both of the United Kingdom and His Majesty's Dominions beyond the seas, that efforts in favour of British manufactured goods and British shipping should be supported as far as is practicable."

SECTION 5.

PRE-WAR DEVELOPMENTS IN THE COLONIES

Canada and Germany:—After the abrogation of the Anglo-German treaty in 1898, Germany found that her goods did not receive the preferential treatment granted by Canada to the United Kingdom. In answer to this Germany retaliated by penalising imports from Canada, by subjecting them to the duties of the German general tariff. In return, Canada imposed a special surtax on German goods. The chief effect of this tariff war between the two countries was to reduce German imports into Canada, and to increase the preferential advantages to British manufacturers as against their German competitors. It was not till 1910, that a provisional arrangement was made between the two countries by which Germany gave Canada the benefit of her Conventional rates, and Canada removed the surtax on German goods, thus making German goods subject to the General Tariff of Canada The provisional arrangement was at a convenient time to be turned into a Reciprocity Treaty.

Canada and France.—We have already referred to the Commercial Treaty made between Canada and France in 1907. Difficulties having arisen about this in the French Senate, a supplementary Convention was signed in 1909. As a result of this French goods were admitted in Canada at rates lower than those of "the Intermediate Tariff". Canada had to do this to secure the concessions which she desired in the French market. The margin of British preference in Canada with reference to French goods was thus reduced. An important part of this arrangement was that each country was to give most-favoured-nation treatment to the other. This meant that if either gave further concessions to the goods of a third country in respect of the articles included in the Treaty, these concessions were to be automatically extended to France or Canada as the

case may be. (This Convention was denounced in May 1920, with a view to make a fresh arrangement).

Canada and the United States of America:—In the meanwhile, important tariff legislation was passed in the United States. A surtax of 25 per cent. in addition to the minimum tariff was to be imposed on the goods of any country which discriminated against the goods of the United States By the treaty with France, Canada was discriminating against the goods of the United States. To avoid further complications, an agreement was made in 1910, between the United States and Canada, by which Canada granted concessions to the United States on thirteen groups of articles. The Government of the United States wanted a Reciprocity Treaty on the basis of "free trade in everything". If such a treaty had been made, British preference in Canada would have come to an end; and Canada would have become the member of an American Zollverein. But this was not done and a reciprocity agreement with regard to certain articles only was made in 1911. The Canadian elections soon after this were fought on this issue, the Government of Sir Wilfrid Laurier who made the agreement was defeated and Sir Robert Boden came to power The agreement was never ratified; though the arrangement of 1910 remained in force.

Canada and other countries —Canada entered into similar agreements with Holland, Belgium and Italy. These countries were given the rates of the Canadian Intermediate Tariff and also the concessions given to France.

As pointed out above, the result of all these agreements was to reduce the margin of preference given to British goods in Canada, by bringing into the field important European countries, as well as the United States.

Australia and New Zealand.

By the operation of the Navigation Laws of the United States foreign ships were excluded from the coasting trade

of that country. The Colonial Conference of 1902 passed a resolution in favour of the promotion of Imperial trade in British ships by suitable legislation. In 1903 the New Zealand Parliament passed an Act for retaliatory restrictions on foreign ships of those countries, which imposed disadvantages on British vessels. In 1906, a bill was passed in the Australian Parliament for giving preferential treatment to British goods. The Bill was however vetoed by the British Government, because the condition which it contained that the goods should be imported in "British ships manned by British labour", was not consistent with existing treaties by which the Australian Colonies were bound.

In the Colonial Conference of 1907, the resolution of 1902 referred to above was reaffirmed. In 1910, at the instance of the Australian Government, the Foreign Secretary opened negotiations with Italy and Austria with regard to existing treaties which gave them shipping privileges which the Dominions might desire to give only to the United Kingdom In the Imperial Conference of 1911, this question was again pressed, when the Foreign Secretary announced the result of his negotiations with Austria and Italy. He said:—"The Government of Italy, when they were approached, replied by saying that they could not see their way to modify the existing treaty in a way which would give the Commonwealth of Australia freedom to withdraw from it, and they ended up by saying: 'The Royal Government' (the Italian Government) 'cannot therefore see that such withdrawal is possible, and in their opinion it must remain dependent *on the denunciation of the treaty by Great Britain*, which is undesirable in the interests of both countries'. So the point of view which the Italian Government took up was that they could not modify the existing treaty, but if power to withdraw was to be given it would mean denouncing the existing treaty with Italy and negotiating an entirely new treaty.

"We approached the Government of Austria-Hungary, and they took up rather a different line. The answer we got from our ambassador was:—'I have now received a request from the Minister of Foreign Affairs at Vienna that, in order to be able to determine their point of view in this matter, they may be informed on what grounds the Government of the Australian Commonwealth wishes to withdraw, and whether the Commonwealth intends to do likewise in respect of other States, *and whether the object is to prepare a way for a preference treatment of British vessels as against those of other nations?* They also consider it important to know whether the Commonwealth would be ready to conclude a new Navigation treaty with Austria in the event of their right being conceded to withdraw from the 1868 Treaty.'

"The Colonial Office in April last year sent this to the Government of Australia, and ended by saying:—'I should be glad to learn in due course what reply your Ministers would desire to be returned to the inquiries of the Austro-Hungarian Government.' I do not think any reply has been yet sent to that inquiry; thus, so far as Austria-Hungary is concerned, the negotiations remain suspended, the Austrian Government have asked certain questions, and meanwhile have not received the information. With regard to Italy it is different; they have stated distinctly that they think the only course would be to denounce the existing treaty and negotiate a new one."

Royal Commissions.

One of the resolutions of the Conference of 1911 proposed that a Royal Commission representing the United Kingdom and the Dominions should be appointed to report on the resources and trade of the Empire. Such a Commission was appointed in 1912. In the meanwhile another Royal Commission appointed in 1909 to consider the Trade

Relations between Canada and the West Indies had reported. On their recommendation a preferential agreement was made between Canada and the West Indies with the consent of the British Government.

SECTION 6

THE PRESENT FISCAL POLICY OF THE EMPIRE

We have seen that before the War, England had systematically refused to reciprocate the preferential treatment given to her by the colonies. If India was allowed to join a scheme of Imperial Preference, she must also be allowed to impose protective duties even against England; on account of these fears India was kept aloof from this movement. The Tariff Reform Party in England which was gradually gaining force saw its opportunities during the War. In September 1915, on account of war necessities new import duties were imposed on motor cars, clocks and watches, musical instruments, etc. The amendments of Sir Alfred Mond and others for preferential treatment of Empire products were defeated. In the meanwhile, the need for a greater co-ordination among the Allied Governments in economic matters was felt. The Paris Economic Conference of June 1916 was the result, in which the Allies agreed to a Common Economic Policy. The idea was to prohibit trading with the enemy during the War, to conserve their natural resources for themselves during the period of reconstruction, and "to take the necessary steps without delay to render themselves independent of the enemy countries, so far as regards the raw materials and manufactured articles essential to the normal development of their economic activities. These steps should be directed to assuring the independence of the Allies not only so far as concerns their sources of supply

but also as regards their financial, commercial and maritime organisation."

"They may, for example, have recourse either to enterprises subsidised, directed, or controlled by the Government themselves or to the grant of financial assistance for the encouragement of a scientific and technical research and the development of national industries and resources, to customs duties or prohibitions of a temporary or permanent character; or to a combination of these different methods.

"Whatever may be the methods adopted the object aimed at by the Allies is to increase production within their territories as a whole to a sufficient extent to enable them to maintain and develop their economic position and independence in relation to enemy countries."

This policy was formally adopted by the Governments of the Empire, and declared to be "the settled policy of the British Government". Soon after, (July 1916) a committee under the chairmanship of Lord Balfour of Burleigh was appointed to outline the Commercial and Industrial Policy of England with reference to the Paris agreement. In the meanwhile, the Imperial War Conference of 1917 was convened. In an interim report, the Balfour Committee had declared itself in favour of (1) measures to encourage the production of foodstuffs, raw materials and manufactured articles within the Empire; (2) acceptance of the Policy of Imperial Preference; (3) a wider range of customs duties in the British Tariff, which may be either remitted or reduced in the case of Empire goods and may form the basis of commercial treaties with allied and neutral powers.

The Governments of all parts of the Empire were represented at the Imperial War Conference of March 1917. India was represented by the Secretary of State,

Lord Meston, the Maharaja of Bikaner, and Lord Sinha. The following resolutions were unanimously passed at the Conference :—

"(A) The time has arrived when all possible encouragement should be given to the development of Imperial resources, and especially to making the Empire independent of other countries in respect of food supplies, raw materials, and essential industries. With these objects in view, this Conference expresses itself in favour of :—

(1) The principle that each part of the Empire, having due regard to the interests of our Allies, shall give specially favourable treatment and facilities to the produce and manufactures of other parts of the Empire.

(2) Arrangements by which intending emigrants from the United Kingdom may be induced to settle in countries under the British Flag.

"(B) Having regard to the experience obtained in the present war, this Conference records its opinion that the safety of the Empire and the necessary development of its component parts require prompt and attentive consideration, as well as concerted action, with regard to the following matters :—

(1) The production of an adequate food supply and arrangements for its transportation, when and where required, under any conditions that may be reasonably anticipated.

(2) The control of natural resources available within the Empire, especially those that are of an essential character for necessary national purposes whether in peace or in war.

(3) The economical utilisation of such national resources through processes of manufacture carried on within the Empire".

In April 1917, Mr. Bonar Law announced the acceptance of the principle of preferential trade within the Empire by the Imperial War Cabinet. In the meanwhile, the report of the Balfour Committee was published. The Committee summarised its conclusions thus:—

(Dumping), "(1) The Producers of this country are entitled to require from the Government that they should be protected in their home market against dumping as previously defined, and against the introduction of sweated goods, by which term we understand goods produced by labour which is not paid at Trade Union rates of wages, where such rates exist in the country of origin of the goods, or the current rates of that country where there are no Trade Union rates. We recommend that action be taken in regard to dumping on the lines (though not necessarily in the precise form) adopted in Canada.

(Key Industries). "(2) Those industries which we have already described as key or pivotal should be maintained in this country at all hazard and at any expense.

(Other Industries) " (3) As regards other industries, protection by means of Customs duties and Government assistance in other forms should be afforded only to carefully selected branches of industry, which must be maintained either by reasons of national safety or on the general ground that it is undesirable that any industry of real importance to our economic strength and well-being should be allowed to be weakened by foreign competition, or brought to any serious extent under alien domination or control.

(Preference). "(4) Preferential treatment should be accorded to the British oversea Dominions and Possessions in respect of any Customs duties now or hereafter to be imposed in the United Kingdom, and consideration should be given to other forms of Imperial Preference.

(Treaties). "(5) As regards our commercial relations with our present Allies and neutrals the denunciation of existing commercial treaties is unnecessary and inexpedient, but the present opportunity should be taken to endeavour to promote our trade with our Allies, and consideration should be given to the possibility of utilising for purposes of negotiation with them and present neutrals any duties which may be imposed in accordance with the principles laid down above.

(An Economic Board) "(6) To avoid the risk of "political pressure" for assistance to industries it was further recommended that:—

A strong and competent Board, with an independent status, should be established to examine into all applications from industries for State assistance to advise His Majesty's Government upon such application, and where a case is made out to frame proposals as to the precise nature and extent of the assistance to be given. Before recommending tariff protection the Board should consider forms of State assistance other than, or concurrent with, protective duties, and it should have constantly in mind the safeguarding of the interests of consumers and of labour, and should make recommendations as to the conditions to be imposed for these purposes."

Another Imperial War Conference was convened in June 1918. Among its unanimous resolutions were those dealing with the following matters:—(1) The endorsement

of the policy of the British Government as expressed in the Nonferrous Metals Industries Act (1918) and recommendation to the Governments of the Empire to adopt similar measures; (2) the acceptance of the necessity to secure for the British Empire and the belligerent allies the command of certain essential raw materials in order to enable them to repair the effects of the War as soon as possible and to safegaurd their industrial requirements. Consideration was given to the possible methods in each part of the Empire of obtaining command of each of the essential Raw Materials, (3) Co-operation with the Imperial Government to promote the dye industry in the Empire, with a view to avoid enemy domination over essential industries, and (4) the appointment of an Inter-Imperial Board on shipping to investigate all questions connected with the development and improvement of sea communications between the different parts of the Empire.

Soon after the meeting of the Conference in July 1918, Mr. Bonar Law announced the acceptance by England of a policy of Imperial Preference which was to take the form which had been adopted by the Dominion Governments—a preference in existing tariffs and in duties which may be subsequently imposed.

The Official summary of the proceedings of the Imperial Conference of 1921 does not give any idea as to whether commercial and fiscal questions were discussed. But the published report says that there is to be complete unanimity in the Foreign Policy of the Empire, including, of course, commercial treaties.

The treaty position as it existed before the War has been already described. The treaties with the enemy countries came to an end with the outbreak of the War. In 1917, Italy denounced her commercial treaties. Soon after France did the same. Special conventions have been

made between Canada and France in 1919 and in 1921, by which each country gets tariff concessions on a reciprocal basis.

SECTION 7.

RECENT FISCAL MEASURES AND TENDENCY IN ENGLAND

Non-Ferrous Metals Act, 1918.—According to this act it is unlawful for any company or individual to carry on the wholesale business of winning, extracting, smelting, dressing, refining or dealing in certain non-ferrous metals and mettalic ores, without a license from the Board of Trade. The idea is to exclude enemy influence or association with such concerns.

Preference in practice:—In his budget speech in 1919, Mr. Austen Chamberlain outlined the main principles on which British preference should be based in these words:— "In the first place the preference should be substantial in amount. In the next place the rates should, as far as possible, be few and simple. Thirdly, where there is an existing Excise Duty corresponding to the Customs Duty which is affected, the Excise Duty must be proportionately altered. We cannot give preference at the expense of the home producer. Lastly, in carrying out this policy I have to remember the interests of our Allies and, as far as practicable, to avoid increasing duties on their products for the purpose of giving preference."

In the budget of 1919, preference was given for the first time on three main classes of existing duties as under:— (1) on the new Customs Duties on cinematograph films clocks and watches, motor cars and musical instruments—a preference of one-third the duty; (2) on consumable commodities other than alcohol, namely, tea, cocoa, coffee

sugar, dried fruits and tobacco—a preference of one-sixth the duty ; and (3) on Colonial wines a preference by a reduction in the duty in their case, and on Colonial spirits a preference by an increase in the duty on foreign spirits. This system has been confirmed in subsequent budgets.

Dyestuffs Act, 1920 :—Under this act, the imports of all synthetic dyestuffs, colours and colouring matter, and of all organic intermediate products used in the manufacture of such dyestuffs, colours and colouring matter are prohibited, except under a license of the Board of Trade.

Safeguarding of Industries Act, 1921 :—This Act authorises the imposition of Customs duties on certain goods with the object of safeguarding (protecting) certain specific industries, and of safeguarding employment in the United Kingdom against the effects of " dumping " and of the depreciation of foreign currencies. The Act is divided into two parts. Under the first part, a duty of 33⅓ per cent. has been levied on certain articles. The duty is not to be levied when the articles in question have been sent from and grown, produced or manufactured in the British Empire. Under part two, the Board of Trade can impose similar duties to prevent " dumping ". Dumping is supposed to take place when imported articles are sold in the United Kingdom below the cost of production, or in the case of countries with a depreciated currency, below the cost of profitable manufactures in the United Kingdom. Before taking this action, the Board of Trade has to see (1) that no foreign agreement is violated; (2) that British employment is or is likely to be seriously affected and (3) that the particular British industry which receives assistance in this way is carried on " with reasonable efficiency and economy ". The action of the Board of Trade cannot come into force, unless approved by a resolution of the House of Commons.

The New Tendency in England.

We thus see a distinct new tendency in the Economic and Fiscal policy of England since the War. For a long time England persistently refused to adopt a system of Imperial Preference in spite of the pressure brought upon her by the colonies. After the War England has seen the necessity of closer economic unity with the rest of the Empire; she is now willing to give up her old prejudices and has adopted preferential duties. We also know the tenacity with which England has adhered to Free Trade Principles. In this case also the War has taught a great lesson, and a distinct change in the direction of a protective policy is visible in England. The Non-Ferrous Metals Act of 1918; the Dyestuffs Act of 1920 and the Safeguarding of Industries Act of 1921 are instances of this new tendency. Why do we observe this great change in the attitude of England towards fiscal questions? Because she has lost the great predominance that she once enjoyed in industrial and commercial matters. Though perhaps for a time her great rival Germany has been crushed, the competition of the United States of America and of Japan, to mention only two, is being seriously felt by Engaland. In the years to come industrial competition is likely to be very keen. Every nation will try to control her raw products for her own manufactures; every nation will try to keep her hold on markets where she has a footing, and seek fresh markets in addition. Till now England was able to stand alone in industrial competition with the rest of the world; in her present position and in veiw of the increasing industrial struggle, she now sees the necessity of taking the help of the other members of the Empire. This is in short the reason which explains the great change in the attitude of England towards fiscal questions.

SECTION 8.

CONCLUSION.

From the above reveiw of Dominion and British Fiscal Policy, we see that both in England and in the Dominions the guiding factor in the determination of their Fiscal Policy has been the prevailing economic conditions of the time. England did have a rigid protective system so long as she required it for the development of her industries; once she acquired the leading industrial and commercial position in the world protection was no longer necessary to her and she adopted a Free Trade policy. The preferential offers of the Dominions were rejected for a long time because Free Trade served England's economic interests better than a preferential system. The situation having changed since the War, England is quick to adapt herself to new conditions; the preferential system has been accepted both in principle and in practice; measures for the protection of certain industries have been introduced.

For a long time the Colonial Fiscal Policy was determined by England in the interest not of the Colonies, but of her own industries. By the time England adopted Free Trade, Canada had acquired responsible government. The other large colonies also obtained responsible government in course of time. England was anxious that the colonies should also adopt Free Trade, but the self-governing colonies found a protective system more congenial to the development of their national industries, and with the help of the political freedom which they enjoyed, they succeeded in adopting a fiscal policy which they thought best for themselves. When the colonies gradually grew in importance they found it in their interests to offer preference to English goods; for a time their offer was not reciprocated and therefore they did not increase their preference on English goods. The War has given them an opportunity; preference is now an accepted principle both in England and in the Colonies.

PART 3.

A CRITICAL REVEIW

OF THE

REPORT OF THE INDIAN FISCAL COMMISSION.

SECTION 1.

PRELIMINARY SURVEY.

The Report of the Indian Fiscal Commission which was published in October 1922 is a document of great importance for the future economic development of our country. Though the great expectations which were held out from the labours of this Commission, in which there was an Indian majority with an Indian President, do not seem to have been realised, it must be admitted that the Report marks the beginning of a definite change in the Fiscal Policy of India.

The terms of reference to the Commission were "to examine with reference to all the interests concerned the Tariff policy of the Government of India, including the question of the desirability of adopting the principle of Imperial Preference, and to make recommendations."

The Report is signed by all the members; five of the Indian members including the President, Sir Ibrahim Rahimtulla have signed it subject to a minute of dissent. The other dissenting members are Messrs. T. V. Seshagiri Ayyar, G. D. Birla, Jamnadas Dwarkadas, and Narottam Morarjee. The other two Indian members Professor Coyajee and Sir Maneckjee Dadabhoy along with the four English members form the majority.

The Report is divided into 18 chapters; the Minute has six chapters and a conclusion. The former covers 174 octavo pages, the latter 34 pages. There are a few appendices. The reading of the Report is facilitated by a

detailed table of contents, a summary of recommendations, marginal notes and an index. The minute has neither a table of contents nor a summary of recommendations; it has no marginal notes nor does it find a place in the index.

Appendix E gives technical information regarding the effect of tariff valuations as compared with ad valorem duties if the valuation is taken as the average of the prices of the three preceding years. The other appendices give no new information; one of them contains the questionnaire, the others are evidently copied from the Annual Review of the Trade of India. The appendix to the Minute of Dissent contains six quotations taken at random from different authors without any exact reference. It aims at showing how great India's economic and industrial position was in the past. The choice of the quotations is not happy, and it is doubtful whether they serve the purpose for which they are put in the appendix.[1]

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1 The value of the Minute is marred by the following avoidable discrepancies —

(*a*) The Report says—"We recommend in the best interests of India the adoption of a policy of protection to be applied with discrimination along the lines indicated in this report". (page 31). The Minute quotes this on page 175 as follows—"We recommend a policy of protection to be applied with discrimination along the lines of the Report".

(*b*) In connection with the agitation in England regarding the Cotton Excise Duty, the Minute (para 28) quotes a passage from para 168 of the Report. The portion in italics is omitted from the quotation—"The whole question is permeated with suspicion and resentment; and these feelings have been kept alive by the action taken by the representatives of the Lancashire cotton industry in 1917, in 1921 and again within the last few months, *to try to secure through the Secretary of State a reversion to* the system which their influence had for so many years imposed upon India".

(*c*) The Report has the following objectionable remark in the concluding chapter :—"India for many years to come is likely to

The introductory chapter of the Report is devoted to a brief statement of the events leading to the appointment of the Commission, which "may be regarded as the outcome of a longstanding and insistent demand of the people in India for a revision of the tariff policy." The recommendation of the Joint Select Committee of Parliament about the extent to which fiscal independence should be granted to India and the acceptance of the same by the Secretary of State are emphasized.

The second chapter deals with the history of the Tariff in India. Part of the history, relating to the Cotton Excise Duties is given in chapter ten, which is wholly devoted to this controversial subject. A more detailed history of the Indian Tariff based on the same original documents that are made use of by the Commission is published in part one of this work. The great increase in Customs Revenue in recent years is shown by an instructive table at the end of chapter two. The revenue

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concentrate on the simpler forms of manufactured goods, and these are precisely those in which the United Kingdom has the smallest interest". (page 172) The Minute quotes and misquotes this in the same paragraph (63) in this manner "India to concentrate her industries on the manufacture of simpler forms of goods". (page 211). The same is further quoted in a different way on the same page as "on the simpler form of manufacture"

(*d*) On page 189 there is a table which is meant to show the growth of revenues in the United States of America and Japan with the help of Customs Duties. The way in which the table is put does not make it clear whether the figures refer to "state revenues" or to "customs duties". In the figures relating to the United States of America, the sudden great fall in 1895 which goes against the argument of the Minute is not explained.

(*e*) Referring to the constitution of the Tariff Board, in paragraph 59, the minority say that the two members should be elected by the non official members of the Legislative Assembly, in the next paragraph (60) they say that the members should be elected by the non-official members of the Indian Legislature.

under this head was about 10 crores on an average in the five years before the War; in 1921-22 it rose to 35½ crores. The percentage which the Customs revenue bore to the Central revenues, on the present basis, before the War was 14·7; in 1921-22 it rose to 31·4.

The economic position in India is the subject of chapter three, which contains a brief survey of the agricultural, industrial and commercial position in our country. The conclusion of this chapter is that the United Kingdom is still the chief supplier of goods to India and she also absorbs more Indian exports than any other single country, though the proportion is diminishing. Trade relations are increasing with the United States of America and Japan, and are not unimportant with Java and Germany. The ground is thus prepared for a pronouncement on the inadequate industrial development in India, in the next chapter, in these words :—"We hold that the industrial development of India has not been commensurate with the size of the country, its population and its natural resources, and we accept the conclusion drawn by the Indian Industrial Commission, which at the close of an inquiry extending over two years summed up the position as follows :—'The industrial system is unevenly, and in most cases inadequately, developed; and the capitalists of the country, with a few notable exceptions, have till now left to other nations the work and the profit of manufacturing her valuable raw materials, or have allowed them to remain unutilised.'".

After a general examination of the advantages and disadvantages of a considerable industrial development in India the Commission comes to this importmant conclusion :—"We have no hesitation in holding that such a development would be very much to the advantage of the country as a whole, creating new sources of wealth, encouraging the accumulation of capital, enlarging the

public revenues, providing more profitable employment for labour, reducing the excessive dependence of the country on the unstable profits of agriculture and finally stimulating the national life and developing the national character".

SECTION 2.

PROTECTION

The most important part of the Report, which is likely to determine the future economic history of this country is that which lays down the tariff policy to be followed by the Government of India in the future. Three chapters are devoted to this important problem. Chapter five gives the reasons which have led the Commission to recommend a policy of protection, chapter six explains why the policy of protection should be applied with discrimination, and chapter seven outlines the principles in accordance with which discrimination should in the opinion of the majority of the Commission be applied. This is the chief point of difference between the members of the Commission, the minority being against the detailed conditions along which the majority want Protection to proceed.

The Report draws attention to the strong feeling in India in favour of Protection. Among the causes of this sentiment are mentioned, the absence of the world-famous manufactures of India in pre-British times, the remarkable industrial development under a system of Protection of Japan, the existence of protective systems all over the world except in the United Kingdom, the existence of Protection even in England before 1846 and recent protective measures in that country, and above all "the feeling that this path to riches is barred by an outside power, and the suspicion that that outside power is actuated by selfish motives". As against this mild phraseology the minority say with emphasis that "we believe that the industrial backwardness of India is in no way due to any

inherent defects amongst the people of India but that it was artificially created by a continuous process of stifling, by means of a forced tariff policy, the inborn industrial genius of the people".

This public sentiment is referred to in the Report not as a reason for the adoption of Protection, but as a support to the reasoned grounds on which the Report professes to advocate a policy of Protection. Here begins the Free Trade bias of the majority. They have not found it possible to resist the insistent demand of the people of India for a policy of Protection. Their own review of the economic and industrial conditions of India inevitably leads them in the direction of Protection. But in stead of getting away from the past and facing the situation boldly from the strictly Indian point of view, in a practical manner, the majority start with an enunciation of Free Trade principles in which they show their implicit confidence. They then proceed to consider the circumstances under which according to Free Trade Economists (Mill and Pigou) these principles can be departed from, and the burden which would be imposed upon the consumer in case of such a departure. It is from this point of view of Protection with a Free Trade bias that the majority try to apply their theories to Indian conditions.

The Industrial Commission made important recommendations for the development of Indian industries, which involved the abandonment of a laissez faire policy. Questions of tariff policy, however, were not within the purview of the Industrial Commission, and their recommendations therefore fail to lay down a policy which may "inspire confidence and encourage enterprise." After pointing out this defect, the Report draws its economic argument in favour of protection for India from a passage by Professor Pigou. He says:—"From these considerations it follows that the case for protection with a view

to building up productive power is strong in any agricultural country which seems to possess natural advantages for manufacturing. In such a country the immediate loss arising from the check to the exchange of native produce for foreign manufactures may well be outweighed by the gain from the greater rapidity with which the home manufacturing power is developed. The 'crutches to teach the new manufactures to walk', as Colbert called protective duties, may teach them this so much earlier than they would have learnt it, if left to themselves, that the cost of the crutches is more than repaid". The Report observes that "these words might almost have been written with direct reference to India, and the case for protection in India can hardly be stated better". The pity is that this was neither realised nor stated earlier.

Another important consideration in favour of a high tariff urged by the Commission is that of the revenue needs of the Government of India. In discussing this point the Commission shows a serious lack of economic knowledge. A general opinion is expressed against the possibility of a further increase in direct taxes in India, and in favour of indirect taxation in case additional revenue becomes necessary. The simple truth that a really effective protective tariff will not yield large revenue is ignored. The possibility of an increase in Income Tax receipts from the existence of new industrial concerns which will spring up under the tariff wall is forgotten, and a capitalistic denial to an increase in direct taxation is given with characteristic indifference to the interests of the general mass of the people for whom great concern is shown in other parts of the Report.

The loss which a system of protection will involve is considered in two parts, loss (1) to the agricultural classes and (2) to the middle classes. In the case of the former either of two consequences will follow. The agricultural

producer may not receive in high prices a sufficient compensation for his increased cost of production, which may drive marginal land out of cultivation; or if the price of agricultural produce rises sufficiently high not to produce this result, it will have injurious effects on the mass of the population. The remedy for this dilemma according to the majority is that protection should be applied with discrimination as laid down by them.

It is admitted that the middle classes will be more adversely affected than others by a policy of protection. In stead of finding a remedy for this, the Commission flatters the middle classes on their supposed willingness to merge their own interests in the wider interests of the country. The capitalist members of the Commission are evidently ignorant of the difficult situation of many a middle class family in the country. The combined burden of direct and indirect taxes on the middle classes is higher in proportion to their income than on the poorer as well as the richer classes. The middle class is already in need of a relief from this burden by a system of abatements and exemptions from the Income Tax on the lines adopted in England and other countries. The case for such a relief will be considerably stronger when the middle class has another burden in the shape of high prices due to protection. On the one hand in a capitalistic vein the Commission argue against an increase in direct taxation, lest it may discourage industry which they want to encourage, on the other in a humanitarian spirit they advocate discriminating protection, lest the poorer classes suffer by indiscriminate methods. The struggling and deserving middle class alone is to sacrifice for the country and not get a material relief which they need more than any other class.

The conclusion of chapter five is that in spite of certain disadvantages of protection the balance of advantage is heavily on the side of their main recommendation, viz.,

"the adoption of a policy of protection to be applied with discrimination along the lines indicated in this report."

Certain disadvantages of protection, viz., (1) the danger of political corruption, (2) combinations of manufacturers and (3) encouraging inefficient methods of production are explained in chapter six, and the hope is held out that the supervision of the Tariff Board, which the Commission recommends, will mitigate the effects of these disadvantages. But the Report proceeds to explain that these and other disadvantages of protection will be obviated only by the exercise of discrimination in the selection of industries for protection. The principle on which this recommendation is based is that the sacrifice due to protection should be restricted to the minimum necessary to attain the object aimed at. According to the majority, discrimination will (1) restrict the rise of prices (2) curtail the period of the burden due to protection (3) serve the best interests of industries and (4) minimise the effect on the balance of trade.

Referring to the balance of trade the majority have needlessly digressed into a thorny question. They seek one more argument in support of their policy of discrimination in the maintenance of a favourable balance of trade, because the present currency system in India depends on such a balance. The majority need not have taken their stand on the maintenance of the present currency system in India which has worked havoc during recent years, and which needs an early reform.

The most objectionable feature in the Report which has given rise to the dissenting minute is the scheme of protection outlined in chapter seven. The halting nature of the recommendations of the majority, their conscious or unconscious efforts to take away with one hand what they give with the other are apparent throughout this chapter.

Some countries have a revenue tariff; others have a protective tariff. Most countries having a protective tariff do get a certain amount of revenue from customs duties on articles of general consumption such as food, drink, and tobacco. For example, as the Report points out, Germany derived 62 per cent. of her customs revenue from such articles before the War. But we have not yet heard of countries which apply two different principles to the same class of goods, or even to the same commodity. Yet this is the ideal put forward by the majority for the Government of India to follow. With regard to one part of their tariff the Government is asked to think strictly on Free Trade principles; with regard to another part they will have to think on the principles of Discriminating Protection on the lines indicated in the Report. For example, if a protective duty is imposed on an article and the Government wants more revenue from that article, the Government must think with "discrimination" and impose an Excise duty on that article plus an additional import duty.

The task of watching the details of this complicated and highly unpractical scheme is to be entrusted to an impartial organisation—the Tariff Board. To establish a claim for protection, the Tariff Board will have to be satisfied (1) that the industry is one possessing natural advantages, such as an abundant supply of raw material, cheap power, a sufficient supply of labour or a large home market; (2) that the industy is one which without the help of protection either is not likely to develop at all, or is not likely to develop so rapidly as is desirable in the interests of the country; and (3) that the industry is one which will eventually be able to face world competition without protection.

The first two conditions seem reasonable and capable of proof. The third will require an omniscient Tariff Board. What the world competition will be with regard to

a particular industry in future is bound to remain an unknown factor. If this is to be a condition precedent to the grant of protection to an industry, protection may not be granted at all.

Besides fulfilling the above conditions those industries in which the advantages of large scale production can be achieved, and in which there is a probability that in course of time the whole needs of the country could be supplied by the home production, are to receive a favourable treatment.

The next important point in the scheme of protection is the stage of development of an industry at which protection should be granted. In the case of an industry which is already in existence it should fulfil condition (2), viz., that it is an industry which without the help of protection either is not likely to develop at all or is not likely to develop so rapidly as is desirable. But in the case of new industries tariff protection should not according to the majority be as a rule granted. This is another instance of the halting nature of the recommendations of the majority. It is certainly necessary to be cautious in granting protection to new industries, but to deny tariff protection to new industries in general is too rigid a condition, which is not likely to encourage industrial enterprises. The majority are not against bounties or such other forms of state assistance to new industries. The difficult questions of the rate of protection and the location of industries are left to the Tariff Board.

The Report favours adequate protection irrespective of the general conditions laid down in other cases, to industries which are found essential for national defence or are of special military value. A similar exceptional treatment is given to basic industries by which are meant industries of which the products are utilised as raw

materials by numerous other industries in the country, *e.g.* iron and steel or certain chemicals, minerals and lubricating oils. The Report favours the abolition of the duty on machinery and on raw materials as well as partly manufactured goods like yarn, and on coal.

The majority are not satisfied with the various conditions under which alone they would give protection to an industry. They are so impatient of protection that they want the Tariff Board to be always on the alert to see whether an industry has reached a stage when protection can be withdrawn. Their recommendation in this connection is that "the Tariff Board should be directed to review periodically the protection given to industries, the period of review being left to the discretion of the Board, but that it should be understood clearly that the review when made should take the form of a definite inquiry into the condition of the industry and the desirability of continuing the duty at the existing rate."

It is easy to see from the many conditions and restrictions which the majority propose in connection with a policy of protection, that the best part of their efforts as members of the Commission has been spent in devising means to nullify the effects of a policy of protection in India. As suggested above, they are a body of free traders grudgingly yielding to the overwhelming pressure of Indian opinion in favour of protection. Their attention is concentrated more on the supposed evils of protection than on its manifold advantages. A careful perusal of their recommendations will convince any one that their main concern is not the industrial development of India, but a skillfully concealed desire to safeguard the interests or soothe the feelings of those who are likely to suffer from the increasing industrial competition of India. The English members of the Commission must be congratulated on their success in drawing into their

fold two of the Indian members, who have apparently failed to realise the intentions of their colleagues, and have thus given an air of sincerity to the majority recommendations.

The country owes a deep debt of gratitude to the President, Sir Ibrahim Rahimtulla and his colleagues who true to their convictions, and sincere in their desire for an industrial development of India, have boldly rejected the main recommendation of "Discriminating Protection", for it is "hedged in by conditions and provisos which are calculated to impair its utility." According to the minority the policy formulated by the majority is open to objection because (1) it mixes up policy with procedure; (2) by emphasising the method of carrying out the policy, the vital issue of the problem is ignored; (3) it ignores the fact that every country applies Protection with discrimination suited to its own conditions and because (4) "the outlook of our colleagues is different from ours." It is to be hoped that when the time for determining the fiscal policy of India by legislation arrives, the members of the Indian Legislature, with the overwhelming support of Indian opinion, will have the courage to force upon the Government of India, the minority recommendation that "there should be an unqualified pronouncement that the fiscal policy best suited for India is Protection."

SECTION 3.

SUPPLEMENTARY MEASURES

Among the supplementary measures which the Commission recommends for the industrial development of the country may be mentioned (1) a more industrial bias in primary education, (2) measures for the training of Indian apprentices in skilled labour, and (3) for the increased mobility of labour, (4) a change in the railway rates policy

with a view to encourage industries on the lines suggested by the Industrial Commission and the Railway Committee, (5) improvement in railway facilities, (6) lowering of coastal shipping rates, (7) measures against dumping, (8) safeguards against imports from countries with a depreciated exchange, and (9) against bounty-fed goods from other countries. Out of these the railway rates policy and the measures against dumping deserve notice.

The Report refers to the common charge that the railway rates are so framed as to encourage traffic to and from the ports at the expense of internal traffic. The consequence is that the export of raw materials and the import of foreign manufactures are encouraged and the development of Indian industries suffers. The circular of the Railway Board issued in May 1915 was intended to remove this complaint; but the same complaints were made before the Industrial Commission (1918), the Railway Committee (1921), and the Fiscal Commission (1922).

This is an instance of the way in which in spite of the best intentions on paper, the development of Indian industries has suffered in the past and may suffer in the future, for want of adequate sympathy on the part of those who translate these intentions into practice.

The Industrial Commission recommended that the governing principle to be followed in railway rating should, so far as it affects industries, be that internal traffic should be rated as nearly as possible on an equality with traffic of the same class and over similar distances to and from the ports. This recommendation, which in no way favours Indian industries is still to be accepted. The Rates Tribunal recommended by the Railway Committee to adjudicate between the trader and the railways in any cases of special complaint is still to be appointed. The Fiscal Commission hopes, that the industrial development which their recommendations is to bring about will not be adversely

affected by the railway rates policy, if the recommendation of the Industrial Commission in that connection is accepted and if the Rates Tribunal is appointed.

Any one seriously and sincerely planning for the Industrial development of India would be impatient at the way in which the railway rates policy has been handled in the past, and the pious hopes which the Fiscal Commission is cherishing at this late hour.

Another instance of the half-hearted nature of the majority recommendations is to be found in their treatment of the question of Dumping. The possibility of dumping is accepted by the Commission by pointing out the fact that the recent anti-dumping legislation passed in so many countries will tend to concentrate such dumping as may take place, on those countries, which have not adopted such measures. The Tata Iron and Steel Company gave evidence to the Commission to show that English steel was being sold in India below the cost of production. Similar complaints were made on behalf of the paper industry. In spite of this, the Commission is not willing to suggest a prompt and adequate remedy against the evils of dumping. The Report admits the considerable difficulty involved in proving that dumping is taking place in any particular instance, and suggests an elaborate inquiry by the Tariff Board in each case before action is taken. This might result in undue delay during which time the industry in question may have suffered irreparable damage. What is required is an automatic action on the lines followed in Canada. In Canada the question of dumping is decided by comparing the price at which goods are sold for export, with the fair market value of the same goods when sold for internal consumption in the country of origin. In case the export price is less than the fair market value in the country of origin itself, a special additional duty is imposed on such goods entering Canada equal to the difference

between the two prices. Legislation on these lines in India will do no harm, and will be of great benefit to the industries of India in case dumping is practised against any of them.

SECTION 4.

EXCISE DUTIES AND COTTON EXCISE.

This is another important subject on which the Commission is divided. The practice in other countries, the writings of Economists as well as the circumstances of the case are on the side of the minority who hold "that excise duties in India should be restricted to alcohol, tobacco, and such other articles, the consumption of which it is desirable to check in the interests of the community and to a few articles of luxury" Indian opinion will also be unanimous with the minority in their emphatic view that the cotton excise duty should be abolished.

The majority are fully conscious of the strength of the Indian feeling regarding the Cotton Excise Duty. Though they are in favour of its abolition on political grounds, they want to provide a loophole for its re-introduction. Evidently they are trying to please both India and Lancashire, and in doing so they have suggested an ingenious principle which finds no place in the standard works on Public Finance. The principle is thus stated:—"When an industry requires protection, any further necessary taxation on its products may, if the other conditions are fulfilled, take the form of an excise duty plus an additional import duty. The latter should fully countervail the former and may be pitched at a higher rate."

Closely connected with this is the interesting procedure which the majority suggest in connection with the Cotton Excise Duty. The Tariff Board is to consider the claims of the Indian Cotton Industry to protection. After this,

the rate of protection, if any, required for the industry will be determined. If the rate of duty thus arrived at satisfies the revenue needs of the Government, there will be no further trouble. But if the Government wants more revenue from cotton cloth, then the principle suggested by them is to be applied, *i.e.* an excise duty should be levied on the products of Indian mills with a corresponding addition to the import duty on cotton cloth.

Whether this is the outcome of a genuine rigid adherence to Free Trade principles or of a skillfully concealed sympathy for the interests of Lancashire it is difficult to say. It is evident, however, that the *Indian* Fiscal Commission was not considering Indian interests and Indian opinion in devising this otherwise ingenious proposal.

The above remark is borne out by the fact that the majority skillfully anticipate interference from the British Government in the matter of any action for the removal of the Cotton Excise Duty and thus suggest that the fiscal freedom granted to India under the Reforms is of doubtful validity. According to the recommendation of the Joint Select Committee which has been accepted by the Secretary of State on behalf of His Majesty's Government, the Government of India and the Indian Legislature are free to shape their fiscal policy in their own way. The interference of the Secretary of State is "limited to safeguarding the international obligations of the Empire or any fiscal arrangements within the Empire to which His Majesty's Government is a party." In spite of this unmistakable language the majority desire 'that the British Government should announce its intention of allowing the Governmeut of India to decide the question (of the abolition of the Cotton Excise Duty) in agreement with the Indian Legislature." The majority have either confused themselves in the meshes

of their dubious proposal, or have deliberately twisted the recommendation of the Joint Select Committee to suit their intentions.

In support of their attitude on Excise Duties the majority have given instances of countries where such duties prevail. The answer of the minority to this is effective and convincing. The excise on tobacco and matches in France is part of a policy of state monopolies. The cotton excise in Japan is meant to encourage the export of cloth and to economise home consumption. The cotton excise in Egypt was evidently due to the influence of Lancashire as in the case of India. These are certainly no good precedents for India to follow. On the other hand, Free Trade England imposed a duty of 33⅓ per cent. on imported motor cars during the war, but she did not impose a countervailing excise duty on locally manufactured cars.

SECTION 5

EXPORT DUTIES.

The Commission is against the imposition of Export Duties for purposes of protection. For revenue purposes the Commission holds that they should be used sparingly and with great caution and should be imposed at a moderate rate only on articles in which India has a monopoly or semi-monopoly. The export duty on tea is supposed not to fulfil this condition and therefore the Commission recommends its removal. Referring to the export duty on raw hides and skins for protective purposes, the Commission remarks that it is wrong in principle, and urges the abolition of the preferential provision in connection with this duty. Dealing with the question of restrictions on the export of food grains, the Commission comes to the conclusion that in normal times any restriction on the export of food

grains whether by export duties or by any other means is contrary to the true interests of the country. In abnormal times, however, the Commission favours a temporary export duty.

SECTION 6.

IMPERIAL PREFERENCE.

After giving the history and meaning of Imperial Preference, the Report explains the economic principles relating to a system of Preferential duties. Coming to the application of such a system to India, the trade situation is reviewed with the conclusion that about two thirds of Indian imports come from the Empire, and something over one third of Indian exports are sent to the Empire, excluding exports to Hongkong and Straits Settlements which are destined for China and Japan. An analysis of Indian exports leads to the conclusion that they are not of a kind to benefit appreciably from preference. This is strengthened by an examination of the actual preference given in the United Kingdom at present to Indian tea, coffee and tobacco. With reference to the question of granting preference to British products in Indian markets, it is admitted that though India is in a position to confer substantial advantages on British products, such an action would be a serious burden on herself, and that it would not be reasonable for India to incur such a burden.

In spite of this inevitable conclusion, the majority show an undue solicitude for certain British interests and go out of their way in trying to make out a case for preference to British dyes, motor cars, machinery, cigarettes and so on. They further emphasise the idea that any preference which India might give to the United Kingdom should be regarded as a voluntary gift, and not as part of a bargain. In order to satisfy the general Indian opposition

to Imperial Preference they lay down three conditions which should govern the grant of preference to the United Kingdom. "In the first place, no preference should be granted on any article without the approval of the Indian Legislature. Secondly, no preference given should in any way diminish the protection required by Indian industries. Thirdly, the preference should not involve any appreciable economic loss to India after taking into account the economic gain which India derives from the preference granted her by the United Kingdom".

In this connection the majority point out the supposed gain which India derives from the British Navy. In defending the Drain due to the English Charges of the Government of India (wrongly called the Home Charges), the protection due to the British Navy has been pointed out by British writers like Morison. The same argument is now used as one of the reasons why India should give preference to British goods. The majority of the Commission seem to be strangely oblivious to the huge expenditure on the Indian Army, which is met by India. It would be interesting to inquire whether the British Navy has afforded more protection to India in the past, or the Indian Army has afforded more protection to British and Imperial interests in different parts of the globe.

So far as the United Kingdom is concerned, the majority want the Tariff Board to investigate whether there are any commodities on which preference might be given without detriment to Indian interests. In the case of the Dominions and Colonies the majority prefer a policy of reciprocity.

The minority voicing Indian opinion take their stand on the political aspect of the case. According to them, the principle of Imperial Preference implies the uncontrolled power of of initiating, granting, varying and withdrawing preference from time to time, and therefore they conclude

that India could not accept the principle of Imperial Preference, until she attained responsible government and was able to regulate her fiscal policy by the vote of a wholly elected legislature.

The minority, however, suggest an ingenious scheme by which India may be placed on a footing of equality with the Dominions in determining the application of Imperial Preference. They recommend that the power of initiating, granting, varying and withdrawing preference on any article should vest by legislation or other equally effective means in the non-official members of the Legislative Assembly. This shows how fiscal and political issues are closely interconnected. If the other members of the Empire want any special privileges for their goods in India, it is evident that the right of conferring these privileges should be in the hands of the people of India alone. So long as India has not achieved full responsible government, this is the only procedure by which India can at all consent to offer preference to Empire goods. The defect in this proposal is that it does not go far enough; the power in question should vest in the elected members of the Legislative Assembly, and not in the non-official members thereof

Referring to the policy of reciprocity with the Dominions suggested by the majority, the minority hold a dignified attitude which will be appreciated by all shades of opinion in the country. They say .—"We cannot agree to any trade agreements being entered into with any Dominion which discriminates against the people of this country. We believe we are voicing the unanimous opinion of the people of India when we say that no agreements based even on reciprocity in trade matters should be entered into with any Dominion which has on its statute book any anti-Asiatic legislation applying to the Indian people." Referring to the preference given by

some colonies to India they observe:—"We may confidently state that the people of India would much prefer the withdrawal of such preference, as they would not care to be economically indebted to any Dominion which does not treat them as equal members of the British Empire having equal rights of citizenship".

SECTION 7.

THE FORM AND APPLICATION OF THE TARIFF.

Discussing the form and application of the tariff, the Report recommends that "while the Indian tariff must contain as at present ad valorem and specific duties and tariff valuations, the system of specific duties and tariff valuations might be extended cautiously, whereever examination by the Tariff Board shows that this is likely to be in the general interests". Unlike the present system, the Report favours the imposition of Customs duty on goods belonging to Government in the interests of Indian industries. Though the Report is against the idea either of obtaining special concessions for Indian goods in foreign markets by means of negotiations or of embarking on any kind of aggressive commercial policy, it recommends that India should impose penal rates of duty against the goods of a country which gave unfair treatment to Indian products. In all such matters of commercial relations with other countries the Dominions are quite independent of the British Government.[1] The absence of such independence is accepted without a protest even by the minority. (paragraph 283).

SECTION 8.

FOREIGN CAPITAL.

With regard to the investment of foreign capital in India the majority hold that from the economic point of

1 *Cf* section 3. Part II.

view all the advantages which they anticipate from a policy of increased industrialisation would be accentuated by the free utilisation of foreign capital and foreign resources. The majority are against any restrictions on the flow of foreign capital in India. They seem to have the interests of the British investor in mind in this connection. Pointing out the disadvantages of restrictions on foreign capital they say that "the British investor also will become shy", and further they observe that "there is room both for Indian and British in the vast field of industrial development, and we believe that without any legislative compulsion it will be found that the two communities will co-operate increasingly to the advantage of the country as a whole".

As pointed out by the minority, the absence of any restriction on the importation of foreign capital in India under a system of protection may lead to results, the danger of which did not exist under a policy of free trade. At present the foreign capital invested in India is wholly or mainly English. If the principle of protection be adopted, and if the importation of foreign capital be not restricted, India would be offering a vast field of industrial exploitation at the cost of her consumers to all foreigners—the Americans, the French, the Germans, the Japanese and others. Foreigners in all parts of the world will then be at liberty to start companies in their own country, and in their own currency, and establish industrial concerns in India, with all the advantages of a tariff wall, for which the people of India will have to pay. (Minute, paragraph 53).

To ask the poor Indian consumer to sacrifice for a policy of protection which will leave the increased wealth within the country and in the hands of Indians, with the hope of getting a share therein is one thing; to ask him to sacrifice for a policy which will give unrestricted scope

to the foreign capitalist to drain away the resources of India is quite a different thing.

Besides, the majority have ignored the distinction between the importation of foreign capital and that of foreign capitalists. A country may use foreign capital with advantage, but if it allows itself to be exploited by foreign capitalists it will be a loser both economically and politically. The economic domination of the foreign capitalists will always be a powerful check to the political advancement of that country. The experience of industrial concerns in India financed and managed by foreigners ought to be a sufficient warning for the future. The establishment of a State Industrial Bank in India which would get its money from foreign sources, if necessary, and finance genuine Indian enterprises would meet the requirements of the case.

The minority are satisfied with a milder suggestion. They recommend that all foreign companies should be incorporated and registered in India with rupee capital, that there should be a reasonable proportion of Indian Directors on the Board and that reasonable facilities should be given for the training of Indian apprentices. This is simply an extension of the principle already in force in the case of industries which receive a concession from the Government of India.

SECTION 9.

INDIAN STATES AND THE TARIFF

In any important change in the tariff policy of India, the people of Indian States are naturally concerned. The Report points out that the Indian States favour discriminating protection. Though representation of the States on the Tariff Board is not practicable, the Report observes that the Tariff Board will look after the interests of the

people of the States both as consumers and producers. Some of the States urged that they should receive a share from the large Customs revenue of the Government of India. The Commission avoid this controversial question by considering it as beyond their terms of reference. As pointed out by the Commission this would raise questions of treaty obligations and of contributions from the States for the defence of India as a whole.

SECTION 10

THE TARIFF BOARD.

Chapter seventeen is devoted to the composition and functions of the Tariff Board on which the successful working of the scheme of protection would depend. The Board is to be a permanent body of high standing. It is not to take decisions, but make recommendations. There should be the utmost publicity in connection with the inquiries and reports of the Tariff Board. The ordinary functions of the Board have been thus summarised in paragraph 306 of the Report :—

(1) To investigate the claims of particular industries to protection, and, if satisfied that protection is required, to recommend the rate of protective duty, or any alternative measures of assistance such as the grant of bounties.

(2) To watch the effect of protective duties or other measures of assistance on industries; to review periodically the results of such protection on each industry, and to make recommendations when necessary for the modification or withdrawal of protection.

(3) To investigate the relations between the rates of duty on raw materials, partly finished products and finished products; to make recommendations for adjustments in these rates, and to suggest solutions for conflicts of interest between different industries.

(4) To report which industries need assistance on the ground that they are essential for purposes of national defence, and in what manner such assistance can most conveniently be given.

(5) To enquire into allegations that dumping is taking place to the detriment of any Indian industry, or that any Indian industry is being injured by competition resulting from the depreciated exchange of any foreign country or from export bounties, and to make recommendations for any action if necessary.

(6) To consider the effects of excise duties on Indian industries.

(7) To report on what commodities revenue export duties can safely be levied and at what rates.

(8) To consider the effects of ad valorem and specific duties and tariff valuations on various articles, and to make recommendations for any changes that may be desirable.

(9) To consider to which articles preferential rates of import duty in favour of the United Kingdom might be extended and what the preferential rates should be.

(10) To report on proposals for preferential agreements with any of the British Dominions or Colonies.

(11) To investigate questions in connection with the treatment of Indian products by foreign countries and the advisability of taking any retaliatory action in special cases.

(12) To investigate any complaints regarding combinations of manufacturers to the detriment of the Indian consumer and to make recommendations for any necessary action.

(13) To watch generally the effects of the tariff policy on the cost of living.

(14) To study the tariff systems of other countries.

Referring to the composition of the Board, the Report says that it should not have less than three members. They are not to be selected with a view to represent different interests. According to the majority, "the principle should be accepted that the best men available are to be engaged, selection depending rather on general qualifications than on specialised or expert knowledge. It is essential that all the members should be men of ability, of integrity and of impartiality, and other desirable qualifications are a knowledge of economics and a practical acquaintance with business affairs." For the remuneration of the members the scale of High Court Judges is recommended. The Board is to have an adequate and competent staff.

The minority want the Board to consist of three members and two assessors. The Chairman must be an ex-High Court Judge; the other two members should be elected by the non-official members of the Indian Legislature, and the two assessors should be elected by leading Chambers and Mercantile Associations in India. The assessors are to be consulted by the Board only when necessary.

Indian opinion is naturally impatient with the system of nomination by Government to important positions. It will not be difficult to point out illustrations showing how Government patronage has been used not wholly in the interests of India. The minority have suggested welcome safeguards against this. They give the power of nominating the Chairman to the Government, but this power is limited in as much as the Chairman is to be an ex-High Court Judge. In connection with the election of the other two members of the Board by the non-official members of the Indian Legislature, it should be clearly understood that the election need not be confined to members of the Legislature only; it may be possible to find "men of ability, of integrity, and of impartiality" outside the Legislature. In this case, as in connection with their

proposal regarding the power to determine the question of Imperial Preference, the minority have not gone far enough. The right of electing the two members of the Tariff Board should be given to the elected members of the Indian Legislature, and not to the non-official members thereof.

SECTION 11.

CONOLUSION.

The minority are perfectly justified in complaining about the half-hearted and apologetic tone of the Report. The majority seem to have forgotten in many cases that they are sitting as an *Indian* Commission. All through the Report the dread of offending or injuring British interests has been present in their mind. Their concluding chapter is nothing else, but a submissive apology to British manufacturers for committing the sin of recommending even discriminating protection for India. It is ridiculous to see the *Indian* Fiscal Commission after having talked so much about an industrial development in India, expressing at the end of their Report the following sentiments:—"We are aware that the feeling for free trade in the United Kingdom is strong, and that our pronouncement in favour of a system of protection for India will seem to many mistaken".............."We are further aware that to many it will seem that the policy which we advocate for India must be detrimental to British interests". There is no real antagonism between the interests of India and of Britain because "India for many years to come is likely to concentrate on the simpler forms of manufactured goods, and these are precisely those in which the United Kingdom has the smallest interest." This last sentence is enough to question the sincerity of the majority for the industrial development of India.

The minority have put the case but mildly when they conclude that "If in the process of her attaining her full stature, there is any risk to the immediate interests of the British manufacturers, that risk must be faced. We think that the risk is remote, not because India is likely to concentrate "on the simpler forms of manufacture" but because by an intense effort at industrialisation she will grow rapidly prosperous and her requirements of manufactured goods will largely increase. The growing prosperity which will result from the rapid development of industries will create increased demand for manufactured articles, both for those which she can manufacture herself and those which she must import, and the trade relations between the two countries will be put on a sound economic basis, mutually beneficial to both."

Appendix A.

The following Summary of Recommendations given in the Report of the Indian Fiscal Commission is reprinted here for convenience of reference.

Reference.

"To examine with reference to all the interests concerned the Tariff policy of the Government of India, including the question of the desirability of adopting the principle of Imperial Preference, and to make recommendations".

Preliminary Conclusions.

That the industrial development of India has not been commensurate with the size of the country, its population, and its natural resources, and that a considerable development of Indian industries would be very much to the advantage of the country as a whole. (Chapter IV).

Principal Recommendations.

1. (*a*) That the Government of India adopt a policy of Protection to be applied with discrimination along the lines indicated in this Report. (Chapter V).

(*b*) That discrimination be exercised in the selection of industries for protection, and in the degree of protection afforded, so as to make the inevitable burden on the community as light as is consistent with the due development of industries. (Chapter VI).

(*c*) That the Tariff Board (see below) in dealing with claims for protection satisfy itself:—

(i) That the industry possesses natural advantages;

(ii) That without the help of protection it is not likely to develop at all, or not so rapidly as is desirable; and

(iii) That it will eventually be able to face world competition without protection. (Chapter VII).

(*d*) That raw materials and machinery be ordinarily admitted free of duty, and that semi-manufactured goods used in Indian industries be taxed as lightly as possible. (Chapter VII).

(*e*) That industries essential for purposes of National Defence, and for the development of which conditions in India are not unfavourable, be adqeuately protected if necessary. (Chapter VII).

(*f*) That no export duties be ordinarily imposed except for purely revenue purposes, and then only at very low rates (Chapter XI); but that when it is considered necessary to restrict the export of food grains, the restriction be effected by temporary export duties and not by prohibition. (Chapter XII).

2. That a permanent Tariff Board be created whose duties will be, *inter alia*, to investigate the claims of particular industries to protection, to watch the operation of the Tariff, and generally to advise Government and the Legislature in carrying out the policy indicated above. (Chapter XVII).

3. (*a*) That no general system of Imperial Preference be introduced; but

(*b*) That the question of adopting a policy of preferential duties on a limited number of commodities be referred to the Indian Legislature after preliminary examination of the several cases by the Tariff Board.

(c) That, if the above policy be adopted, its application be governed by the following principles:—

(1) That no preference be granted on any article without the approval of the Legislature,

(ii) That no preference given in any way diminish the protection required by Indian industries.

(iii) That preference do not involve on balance any appreciable economic loss to India.

(d) That any preferences which it may be found possible to give to the United Kingdom be granted as a free gift.

(e) That in the case of other parts of the Empire preference be granted only by agreements mutually advantageous. (Chapter XIII).

4. That the existing Cotton Excise Duty in view of its past history and associations be unreservedly condemned, and that Government and the Legislature start again with a "clean slate", regulating their excise policy solely in the interests of India. (Chapter X).

Subsidiary Recommendations.

5. That the proviso to Section 20 of the Sea Customs Act be repealed, and that Customs Duty be ordinarily levied on goods belonging to Government (paragraphs 285-288).

6. That difficulties in the shape of shipping rebates (paragraph 132), or unfair advantages like dumping (paragraph 133-139), depreciated exchanges (paragraph 140), bounty-fed imports from abroad (paragraph 141), be investigated and, where possible, removed.

7. That industrial development be promoted by giving a more industrial bias to primary education (paragraph 122), and providing opportunities for training apprentices (paragraphs 123-124), and organisations for increasing the mobility of labour (paragraph 125).

8. That no obstacles be raised to the free inflow of foreign capital, but that Government monopolies or

concessions be granted only to companies incorporated and registered in India with rupee capital, such companies to have a reasonable proportion of Indian Directors, and to afford facilities for training Indian apprentices. (Chapter XV).

9. That the Tariff be not ordinarily employed for retaliation, or as a means of aggression (paragraphs 280-284).

10. That the Tariff be elaborated with a view to remove ambiguities, and that the system of specific duties and tariff valuations be cautiously extended. (paragraphs 266-278).

Appendix B.

SUMMARY OF THE MINUTE OF DISSENT.

Causes of Dissent.

1. The main recommendation of the Report has been hedged in by conditions and provisos which are calculated to impair its utility.

2. In places, the language employed in the Report is half-hearted and apologetic.

3. The minority are unable to agree with the view of their colleagues on Excise, Foreign Capital, Imperial Preference and the constitution of the Tariff Board (paragraph 1).

Protection.

There should be an unqualified pronouncement that the fiscal policy best suited for India is *Protection*. (paragraph 2).

Excise.

Excise Duties in India should be restricted to alcohol, tobacco, and such other articles, the consumption of which it is desirable to check in the interests of the community, and to a few articles of luxury. (Chapter 2, paragraph 18).

In accordance with this principle, the Minority hold the emphatic view that for maintaining India's self-respect it is necessary to abolish the Cotton Excise Duty. (Chapter 3).

Imperial Preference.

The minority are in favour of the principle of Imperial Preference, on the distinct condition, that India should in this matter be put on the same footing of freedom as is

enjoyed by the Self-Governing Dominions, and that the non-official members of the Legislative Assembly should be given power by legislation or other equally effective means to initiate, grant, vary and withdraw preference as may be necessary in the interest of India in all its aspects.

That the condition precedent to any agreement with a British Dominion in trade matters on the basis of reciprocity should be, the recognition of the right of the Indian people to a status of complete equality, and the repeal of all anti-Asiatic laws so far as they apply to the people of India. (Chapter 4, paragraph 44).

Foreign Capital.

The following conditions should apply to foreign companies taking advantage of the tariff protection to industries in India :—

1. Such companies should be incorporated and registered in India in rupee capital.

2. There should be a reasonable proportion of Indian Directors on the Board.

3. Reasonable facilities should be offered for the training of Indian apprentices. (Chapter 5, paragraph 51).

Tariff Board.

The Board should consist of three members and two assessors :—

1. The chairman should be a trained lawyer who has had experience for a reasonable time on one of the High Courts in India.

2. The other two members should be elected by the non-official members of the Indian Legislature; and

3. Two assessors representing trade, commerce and industry by election by the leading Chambers and Mercantile Associations in India.

The assessors should only be called at the discretion of the Board when in their opinion the presence of such assessors will be helpful to the Board in the investigation of any particular question. (paragraph 60).

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